

ORIGINAL



0000078001

BEFORE THE ARIZONA CORPORATION CO

COMMISSIONERS

RECEIVED

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

2007 OCT 19 P 4: 54

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS SUN CITY
WASTEWATER AND SUN CITY WEST
WASTEWATER DISTRICT

DOCKET NO. WS-01303A-06-0491

BRIEF OF COMMISSION STAFF
Arizona Corporation Commission
DOCKETED

OCT 19 2007

DOCKETED BY	ne
-------------	----

I. INTRODUCTION

The Arizona-American Water Company ("Arizona-American Water" or the "Company") is the largest, investor-owned water utility in the State of Arizona. Arizona-American Water serves approximately 131,000 water customers throughout the state. On July 26, 2006, the Company filed an application for rate increases in its Sun City Wastewater District ("Sun City") and Sun City West Wastewater District ("Sun City West") with the Arizona Corporation Commission ("Commission"). Sun City serves approximately 22,000 wastewater customers. Sun City West serves approximately 15,000 wastewater customers. The Company considers both districts built-out, and expects growth to be insignificant.¹

Administrative Law Judge Teena Wolfe ("Judge Wolfe") held evidentiary hearings in this matter on August 23, 24, 27, 28, 2007 and September 5, 2007. This rate application is the Company's first rate application for the districts since June 30, 2004. The Commission approved the current rates in Decision No. 67093. The Commission ordered a 14.66% decrease in Sun City's rates, and a 26.43% increase in Sun City West's rates.² In this proceeding, the Company requests a

¹ AZ-AM -11 at 4. See also S-1 at Exhibit DMH-1 at Page 4 (Staff Engineering Report for Sun City). Staff estimates that growth is approximately 273 customers per year.; and Exhibit DMH-1 at 5-6 (Staff Engineering Report for Sun City West). Staff estimates that growth is approximately 19 customers per year. See also TR: 645, ll. 7-8.

² *Arizona-American Water Company, Inc.*, Docket Nos. WS-01303A-02-867, WS-01303A-02-0868, and WS-01303A-02-0869, Decision No. 67093 (June 30, 2004) ("Decision No. 67093") at 33. See also AZ-AM - 11 at 4.

1 33.13% increase in Sun City's rates³; and a 27.97% increase in Sun City West's rates.⁴ Staff
2 recommends a 30.93% increase in Sun City's rates⁵; and a 23.77% increase for Sun City West's
3 rates.⁶

4 In its Application, the Company described its Sun City and Sun City West districts as
5 retirement communities.⁷ The Company cited 2000 Census data showing that 74.5% of Sun City's
6 residents are 65 years old or older.⁸ During the public comment session, one public commenter
7 stated that the average age is now 74 and will soon approach 80 years old.⁹ As discussed below, the
8 Company argues that the communities' demographics require special consideration for issues such as
9 rate design. Even though the Company now opposes a volumetric rate design, Mr. Broderick initially
10 testified:

11 We do expect the residents of this community *to be quite interested in*
12 *conservation based wastewater rates* and look forward to the reaction
of the Company's proposal sponsored by Mr. Charles Loy.¹⁰

13 These rate proceedings are particularly important because of the (1) history of the districts and
14 (2) the Commission's directives in Decision No. 67093. The last rate increase for Sun City was
15 approved by the Commission in Decision No. 67093. The Commission approved a flat rate design
16 for the district's wastewater customers. However, the Commission directed the Company as follows:

17 Some municipal wastewater systems bill their customers based on the
18 amount of water they use. To determine if tiered wastewater rates
19 based on water consumption would be an appropriate rate design, we
20 *will require Arizona-American* to include a proposal in its next rate
21 case filing for Sun City West, Sun City and Anthem/Aqua Fria
22 wastewater systems that will present information on 1) whether
wastewater rates based on water consumption *encourage water*
conservation, 2) whether higher bills for those who use the system
more is *a fairer way to collect revenues*; and 3) what tiered wastewater
rates based on water consumption would look like compared to a flat
rate design.¹¹

23 ...

24 ...

25 ³ AZ-AM's Sun City Final Exhibit Summary at 1. Docketed 9/14/07

⁴ AZ-AM's Sun City West Final Exhibit Summary at 1. Docketed 9/14/07

⁵ Staff's Sun City Final Position Schedule DRR-1. Docketed 9/21/07

⁶ Staff's Sun City West Final Schedule GWB-1. Docketed 9/12/07

⁷ AZ-AM - 11 at 5.

⁸ *Id.*

⁹ TR: 28 (Mr. Ken Ivory).

¹⁰ AZ-AM - 11 at 6, ll. 2-4 (Mr. Broderick's Direct Testimony).

¹¹ Decision No. 67093 at 42, ll. 4-11 (emphasis added).

1 The Commission's Utilities Division Staff ("Staff") is the only party recommending
2 volumetric, tiered rates based on water consumption. The other parties argue that volumetric rates
3 would result in rate shock and inappropriate cost allocations. They also argue that appropriate price
4 signals would not be available to individual water users. The latter argument is based on the
5 communities' unique circumstances. Notwithstanding such arguments, evidence in the proceeding
6 supports volumetric rates.

7 In his Direct Testimony, Company witness Mr. Thomas M. Broderick discusses legacy issues
8 following the Company's purchase of the districts' assets and Certificates of Convenience and
9 Necessity ("CC&N"). The Commission approved Arizona-American Water's purchase from Citizens
10 Utilities Company ("Citizens") in Decision No. 63584.¹² As part of its decision, the Commission
11 approved a settlement agreement between the Company and Staff.¹³ The settlement agreement
12 included provisions for regulatory treatment of certain liabilities retained by Citizens.

13 The liabilities were balances of Advances in Aid of Construction ("AIAC") and Contributions
14 in Aid of Construction ("CIAC") on Citizens' books on the date of transfer. A portion of AIAC
15 balances were transferred to CIAC.¹⁴ The balances were imputed to the Company and then
16 amortized over a number of years for ratemaking purposes. The dispute in the above captioned
17 matter is the amount of imputed CIAC and AIAC in the test year. The test year is from December 10,
18 2004 to December 9, 2005.¹⁵ Staff recommends that imputed AIAC and CIAC be calculated on the
19 actual test year ending December 9, 2005.¹⁶ The Company argues that the test year is the calendar
20 year for 2005 even though actual data used ends on December 9, 2005.¹⁷

21 The last major dispute between the Company and Staff is cost of capital. The Company
22 recommends an overall Return on Equity of 11.75% and overall Rate of Return of 8.0%. Staff
23 recommends a Return on Equity of 10.6% and overall Rate of Return of 7.5%.

24
25 ¹² See *In the Matter of the Joint Application of Citizens Utilities Company et.al.*, Docket Nos. W-01032A-00-0192 *et.al.*,
Decision No. 63584, April 24, 2001.

26 ¹³ *Id.* at Finding of Fact ¶ 19 at 6.

27 ¹⁴ *Id.* at Exhibit 1 (Settlement Agreement Between Arizona Corporation Commission Staff and Arizona-American Water
Company), ¶ 3 (approximately 5%).

28 ¹⁵ See S-8 at 2, ll. 21-24 (Sun City West test year is December 10, 2004 to December 9, 2005); and S-3 at 2, ll. 19-22 (Sun
City test year is December 10, 2004 to December 9, 2005).

¹⁶ See S-8 at 6, ll. 13-18 (Sun City West); and S-3 at 6, ll. 17-23 (Sun City).

¹⁷ See AZ-AM – 13 at 2, ll. 11-18.

1 **II. RATE CASE**

2 **A. Rate Base**

3 Prior to and during the hearing, the parties resolved most of the issues related to rate base.
4 Three major issues were resolved through cross examination and rebuttal testimony at the hearing.
5 The first issue was the correct regulatory treatment of Sun City's obligations for the Tolleson
6 Wastewater Treatment Plant (the "Tolleson Plant"). The City of Glendale transports wastewater
7 from the district to the Tolleson Plant. The City of Tolleson owns and operates the plant.¹⁸ Sun City
8 has a long term lease for a portion of the plant (the "Tolleson Obligation").

9 In Decision No. 67093, the Commission decided to defer implementing an adjustor
10 mechanism for the obligations.¹⁹ The Company requested regulatory treatment of the Tolleson
11 Obligation in the above captioned matter. A description of the obligations and agreement of the
12 parties is below.

13 The second rate base issue resolved during the hearing was the allocation of capacity for the
14 Northwest Valley Regional Water Reclamation Facility ("Northwest Plant"). The Company uses the
15 Northwest Plant to treat wastewater flows from Sun City West and its Agua Fria Wastewater District
16 ("Agua Fria"). Staff is also filing an updated recommendation in Docket No. WS-01303A-06-0403.
17 The docket is the pending rate case for Anthem Water and Anthem/Agua Fria Wastewater Districts.
18 The updated recommendation will reflect the agreement between Staff and the Company.

19 The third major issue is the appropriate amortization of imputed AIAC and CIAC. Staff
20 requests the Commission to include amortization ending on December 9, 2005, the end of the test
21 year. As explained below, if the Commission adopts the Company's position, amortization would be
22 accelerated beyond the test year.

23 In pre-filed testimony, the Company agreed with several rate base issues identified by Staff.
24 For example, the Company accepted Staff witness Ms. Dorothy Hains' recommendations to
25 reclassify certain expenses. Ms. Hains recommended that expenses for flow meters and generators be
26 reclassified to the National Association of Regulatory Utility Commissioners ("NARUC") account
27

28 ¹⁸ See Decision 67093 at 42, ll. 13-17. See also AZ-AM - 2 at 3, line 4 to 4, line 24; and AZ-AM - 9 at 11, ll. 3-10.

¹⁹ *Id.* at 58, Finding of Fact ¶54.

1 numbers 364 and 355, respectively. The Company also accepted Staff Witness Mr. Dennis Roger's
2 adjustment to remove plant erroneously recorded on Sun City's books.²⁰ Other issues resolved
3 between the Company and Staff are identified in the parties' pre-filed testimony.

4 **1. The Commission Should Adopt Staff's Recommendations of an Original**
5 **Cost Rate Base of \$12,405,348 for Sun City Wastewater and \$16,193,689**
6 **for Sun City West Wastewater.**

7 In its final schedules and in its application, the Company requests that its original cost rate
8 base ("OCRB") be considered its fair value rate base ("FVRB").²¹ For Sun City, the Company
9 recommends a rate base of \$12,346,101.²² For Sun City West, the Company recommends a rate base
10 of \$16,544,545.²³ For Sun City, Staff recommends a rate base of \$12,405,348.²⁴ For Sun City West,
11 Staff recommends a rate base of \$16,409,137.²⁵

12 The differences for Sun City are due to 1) the parties' different positions on recommendations
13 for imputed AIAC and CIAC; and 2) the Company's acceptance of RUCO's removal of certain plant
14 related to Youngtown.²⁶ For the latter issue, Company witness Ms. Hubbard stated that, "I will
15 accept Mr. Coley's recommended disallowance even though I have been unable to ascertain the
16 genesis of the plant removal."²⁷ The Company's adjustment was a decrease in plant for the amount
17 of \$96,728.

18 The differences for Sun City West are due to the parties' different positions on
19 recommendations for imputed AIAC and CIAC.²⁸ Note that the Company's final schedules did not
20 incorporate its acceptance of Mr. Becker's rate base adjustment number 1. Mr. Becker made an
21

22 ²⁰ See S-1 at 5, line 11 to 6, line 5; and AZ-AM - 9 at 4, ll. 7-15.

23 ²¹ See e.g. AZ-AM Exhibit Schedules A-1 (Column B, line 1) and Schedule B-1 (Column C, line 24) for Sun City; See
24 also AZ-AM - 8 at 2, line 14 to 9 at 12; and S-8 at 6, ll. 5-10 (For Sun City West, "The Company requested that its
original cost rate base ("OCRB") be treated as its fair value rate base."); and S-3 at 6, ll. 10-14 (For Sun City, "The
Company requested that its original cost rate base ("OCRB") be treated as its fair value rate base.").

25 ²² AZ-AM Final Exhibit Schedule B-1 (Column C, line 24) for Sun City. Docketed 9/14/07

26 ²³ AZ-AM Final Exhibit Schedule B-1 (Column C, line 24) for Sun City West. Docketed 9/14/07

27 ²⁴ Staff Final Position Schedule DRR-3 for Sun City. Docketed 9/21/07

28 ²⁵ Attachment 1, for Sun City West. Docketed 10/4/07

²⁶ Cf. Company Final Exhibit Summary at 2 of 4 for Sun City docketed 9/14/07; and Staff's Final Position Schedule
DRR-4 docketed 9/21/07. See also Company Final Exhibit Schedule B-2 for Sun City. Docketed 9/14/07

²⁷ AZ-AM - 10 at 6, ll. 3-15.

²⁸ Cf. Company Final Exhibit Summary at 2 of 4 for Sun City West docketed 9/14/07; and Staff's Surrebuttal Schedule
GWB-3 (Revised) docketed 10/4/07. See also Company Final Exhibit Schedule B-2 for Sun City West.

1 adjustment for the beginning Utility Plant in Service ("UPIS") in the amount of \$215,448.²⁹
2 Company witness Ms. Hubbard accepted the adjustment in her Rebuttal Testimony.³⁰ Ms. Hubbard
3 also explained that the plant at issue was retired and no longer used and useful. Accordingly, she
4 reduced both UPIS and the beginning accumulated depreciation. Mr. Becker inadvertently did not
5 adjust the beginning accumulated depreciation. His corrected schedules are attached as Attachment
6 1. The corrected schedules are labeled as final schedules (with today's date).

7
8 **2. The Commission Should Adopt the Parties' Agreement to Allocate 68% of**
9 **the Capacity of the Northwest Regional Wastewater Treatment Facility to**
10 **Sun City West.**

11 In December 2004, the Company expanded its Northwest Plant from 3.14 million gallons per
12 day ("mpg") to 5.0 mgd. Following the expansion, the Company completed additional upgrades of
13 the plant. Staff witness Dorothy Hains inspected the plant on September 25, 2006. Ms. Hains
14 determined that the expansion and upgrades are used and useful.³¹

15 Company Witness Mr. Brian K. Biesemeyer testified about the purpose of the expansion and
16 uses of the Northwest Plant as follows:

17 In 2004, the Northwest Valley Regional Water Reclamation Facility
18 ("NWVWRF"), formerly known as the "Sun City West Water
19 Reclamation Facility", *was expanded to accommodate flows from the*
20 *Agua Fria Wastewater District* just north and east of Sun City West.
21 As a result, the facility was renamed and *the assets were transferred*
22 *from the Sun City West District to a new district, or business unit,*
23 *entitled Northwest Valley Water Treatment Facility.* Currently, the Sun
24 City West Wastewater district still accounts for the majority of the
wastewater treated at the NWVWRF.³²

25 In the Agua Fria Wastewater rate case, the Company initially allocated 2.25% of operating expenses
26 and rate base for the Northwest Plant to the Agua Fria Wastewater District ("Agua Fria"). In this rate
27 case, the Company initially allocated 97.75% of operating expenses and rate base for the plant to Sun
28 City West.³³ The allocations were based on actual flows during the test years.³⁴

29 S-8 at 6, ll. 20-24.

30 AZ-AM - 9 at 6, ll. 9-12.

31 S-1 at Exhibit DMH-2, page 1.

32 AZ-AM - 2 at 5, ll. 4-10 (emphasis added). Note also that Company witness Mr. Troy Day adopted Mr. Biesemeyer's testimony as his own. TR: 122, line 16 to 123, line 11.

33 AZ-AM - 8 at 3, ll. 1-4. Note also that Company witness Ms. Sheryl Hubbard adopted the portion of Mr. Reiker's testimony for rate base treatment of the Northwest Plant as her own. TR: 305, line 20 to 306, line 16. See also S-1, Exhibit DMH-2 at 3-4.

1 At the hearing, Company witness Mr. Troy Day testified that current wastewater flows from
2 the Agua Fria are approximately 10% of the plant's capacity. Mr. Day also agreed that the purpose of
3 the expansion was to serve the growth in Agua Fria.³⁵ The primary areas of growth are the Corta
4 Bella Subdivision³⁶ and the former Rancho Cabrillo Sewer Company (The Commission approved the
5 acquisition in Decision 67105 and Arizona-American Water merged the company with Agua Fria).³⁷

6 In her engineering report, Staff witness Dorothy Hains initially adopted Staff's position in the
7 pending rate case for Agua Fria.³⁸ At hearing, Ms. Hains proposed a new allocation based on the
8 relative growth of Sun City West and Agua Fria. Ms. Hains recommended an allocation of 3.4 mgd,
9 or approximately 68%, for Sun City West. Ms. Hains based her recommendation on the peak day
10 flow for February 2005. The peak day is shown in Table 1 of the engineering report on page 3. The
11 peak day is 3.311 mgd.³⁹ Ms. Hains' recommendation of 3.4 mgd allows for the minimal growth in
12 Sun City West. Ms. Hains explained that 3.4 mgd is adequate to serve the needs of Sun City West for
13 a 5-year planning horizon.⁴⁰

14 In his Rebuttal Testimony at the hearing, Mr. Broderick accepted Ms. Hains' updated
15 allocation. Mr. Broderick did have one caveat. He testified as follows:

16 I guess the caveat would be, I guess a question is does [sic] the
17 company accept the 32 percent allocation of the northwest valley
18 treatment facility's costs to the Anthem/Agua Fria Wastewater District.
19 And yes, we do. The caveat would be that we review this in the next
20 rate case, that that be a percentage statistic that gets reviewed on the
21 next rate case....

22 I guess the comment I would make is 32 percent is much, much higher
23 than we started. We started at 2.25 percent....And in Sun City West,
24 there was a peak in early '03 of nearly 4 million gallons. And that, you
25 know, that's an actual peak, even though, as Ms. Hains correctly noted,
26 the values have been kind of steady or slightly down since then, and
27 she, you know, she took off of the more recent actual, you know, than
28 the earlier one time historic peak.⁴¹

34 TR: 152, line 15 to 153, line 5. See also S-14 at 399 (Partial transcripts for Docket WS-01303A-06-0403); and S-29 at 450-456 (Partial transcripts for Docket WS-01303A-06-0403).

35 TR: 153, line 24 to 155, line 11.

36 S-1, Exhibit DMH-2 at 3.

37 TR: 148, line 14, to 149, line 11; and 160, ll. 12-15; see also S-21 (Decision No. 67105).

38 TR: 643, ll. 3-22.

39 See S-1, Exhibit DMH-2 at 3. See also TR: 645, ll. 13-20.

40 TR: 645, line 21 to 647, line 9.

41 TR: 827, line 3 to 828, line 3.

1 One final issue was addressed in the hearing for the Northwest Plant. Before the Company
2 created a new business unit for the plant, the plant's operating results were reported for Sun City
3 West. Mr. Broderick testified that the Company files a single annual report for all of its districts in
4 Arizona. He explained that individual districts have separate reported results in the annual report.
5 Finally, Mr. Broderick stated that the Company would have a new section for the Northwest Plant.
6 Thus, the plant's operating results would be stated separately from Sun City West and Agua Fria.
7 Nevertheless, the data for each district would appear in the section for the Northwest Plant.⁴²

8 Staff respectfully requests the Commission to adopt the allocation agreement between Staff
9 and the Company for the Northwest Plant. Staff also agrees that the allocation may be revisited in
10 future rate cases if the relative use of the plant by the districts changes. The Commission should also
11 order the Company to report the results of plant operations in the Company's annual report.

12 **3. The Commission Should Adopt the Parties' Agreement on the Regulatory**
13 **Treatment of the Tolleson Obligation.**

14 Sun City does not have a wastewater treatment facility. On June 21, 1985, Sun City executed
15 a long term agreement with the City of Tolleson ("Tolleson") for wastewater treatment services at the
16 Tolleson Waste Water Treatment Plant (the "Tolleson Plant") ("Tolleson Agreement").⁴³ The
17 Tolleson Agreement replaced an agreement originally executed on April 10, 1979 between Sun City
18 and the City of Glendale for similar services.⁴⁴ The City of Glendale continues to provide
19 transportation services from Sun City to Tolleson pursuant to a separate agreement.⁴⁵ The cost
20 recovery for transportation is included in the Tolleson Agreement.⁴⁶

21 The Tolleson Agreement includes four rate components. In Decision No. 67093, the
22 Commission discussed the four rate components:

23 Rate Component One is a fixed annual user charge related to bond
24 financing issued by Tolleson to pay for the original plant additions
25 Tolleson made in order to receive and treat the Sun City District's
26 wastewater flows. Rate Component Two is a monthly operating and
27 maintenance ('O&M') charge based on the Company's proportionate
28 share of actual O&M costs based on actual flows. During the test year,

⁴² TR: 838, line 4 to 839, line 6.

⁴³ See RUCO-15.

⁴⁴ *Id.* at 2.

⁴⁵ TR: 692, ll. 15-22.

⁴⁶ *Id.* at 693, line 21 to 694, line 4.

1 Rate Component Three consisted of a \$1,500 monthly payment for
2 replacement and contingency reserves up to an aggregate balance of
3 \$90,000.⁴⁷

4 On April 22, 2003, Sun City and Tolleson executed a third amendment to the Tolleson Agreement.
5 The third amendment included increased costs under rate component three and added rate component
6 four. The monthly fee for rate component three increased to \$20,000 per month and the aggregate
7 increased to \$200,000. Rate component four is for major capital improvements and additions.⁴⁸ The
8 capital improvements will be approximately \$10 million.⁴⁹ The expected completion for all of the
9 improvements is in mid 2008.

10 In Sun City's last rate case, the Company requested a cost adjustor mechanism. The
11 Commission denied the request because the improvements under rate components three and four were
12 not known and measurable.⁵⁰ The Commission noted that the Company would be kept whole through
13 an accounting order approved in Decision No. 66386 (October 6, 2003).⁵¹ The Commission deferred
14 reviewing the additional costs until the next rate case.⁵²

15 Prior to Decision 67093, the Company was authorized to recovered costs associated with the
16 Tolleson Obligation through a surcharge. The Commission originally approved the surcharge in
17 Decision No. 52600, effective with December 1981 billings.⁵³ In Decision No. 53233, the
18 Commission approved use of a bank balance to address over and under collections through the
19 surcharge.⁵⁴ At the hearing, RUCO witness Marylee Diaz Cortez testified that:

20 So it is clear from these decisions that the original surcharge for sure
21 had rate components one and two in them. I believe three was also
22 included in it but you can't get there from these decisions. But simply
23 because the original company had a rate component three and they
24 indicated that they were flowing all the charges through the surcharge, I
25 believe it is in there but it is not explicit.⁵⁵

26 ...

27 ...

28 ⁴⁷ Decision 67093 at 42, line 19 to 43, line 8; see also RUCO-15 at 22-28; and TR: 678, line 18 to 680, line 4.

⁴⁸ See *Id.* and the Third Amendment at 2-3.

⁴⁹ Decision 67093 at 43.

⁵⁰ Decision 67093 at 45, ll. 24-27.

⁵¹ *Id.* at 45, ll. 18-23.

⁵² *Id.* at 45, line 27 to 46, line 1.

⁵³ R-16 (Decision No. 53530, dated April 20, 1983) at Finding of Fact ¶3.

⁵⁴ *Id.* at Finding of Fact ¶4; see also R-19 (Decision No. 55488, dated March 23, 1987) at 11, ll. 9-21.

⁵⁵ TR: 681, ll. 13-20.

1 In Decision No. 60172, the Commission discontinued the surcharge and allowed recovery as
2 operating expenses. The Commission stated:

3 Both Staff and RUCO recommended that the Sun City Sewer's sewer
4 treatment surcharge be eliminated and that the Tolleson wastewater
5 processing charge be treated as a normal operating expense which is
6 recovered in base rates....Accordingly, we have eliminated the sewer
7 treatment surcharge and included the costs in base rates.⁵⁶

8 Staff's initial position was to treat rate components three and four as a regulatory asset and
9 amortize it over the life of the asset. Staff's proposal restated the regulatory treatment back to 1998.
10 In 1998, the Tolleson Obligation was refinanced.⁵⁷ The Company's proposed amortization period
11 was for the life of the financing.⁵⁸ Staff's restatement was a prior period adjustment to reflect the
12 correct amortization period.⁵⁹ Staff also included rate component three as a regulatory asset.

13 Staff's position is consistent with Decision No. 66386. In the accounting order, the
14 Commission allowed the Company to defer all costs associated with the increased costs of rate
15 component three and all costs related to rate component.⁶⁰ The Commission also deferred any
16 decision on ratemaking treatment of the deferrals.⁶¹ The Commission explained:

17 Our decision [in Decision No. 66386] recognized that the issuance of
18 the accounting order did not assure recovery of the costs in rates, but
19 that without such an accounting order, the company would be
20 foreclosed from possible future recovery of such costs as a regulatory
21 asset. We therefore ordered the company to prepare and retain
22 accounting records sufficient to permit a detailed review in a rate
23 proceeding of all of the deferred costs.⁶²

24 Staff's position also reflected its view that rate component three may have been partially
25 recovered in operating expenses. Ms. Diaz Cortez testified:

26 Rate adjustment JMR-5, Sun City Wastewater only, increases rate base
27 to reflect improvements charged to the company under rate component
28 four of the Tolleson Agreement....- - there is a historical operating
expense of 1.9 and some odd dollars and cents, million, that represents
rate component one and two and possibly three. Now on a going
forward basis, they want to treat rate component four as a purchase of
capacity and use it as a rate base item....So I think the company in their

⁵⁶ Decision No. 60172 at 38 (*32 for Westlaw; 1997 WL 873623).

⁵⁷ RUCO-18.

⁵⁸ AZ-AM-13 at 2, ll. 13-20.

⁵⁹ Staff Final Position Schedule DRR-10. Docketed 9/21/07

⁶⁰ See Decision No. 66386 at Finding of Fact ¶ 5 and Conclusion of Law ¶ 4.

⁶¹ *Id.* at Finding of Fact ¶ 11 and Conclusion of Law ¶ 3.

⁶² Decision 67093 at 45, ll. 18-23.

1 proposal, and RUCO in evaluating it, came to the conclusion that after
2 22 years that maybe it wouldn't be fair to change the ratemaking
3 treatment....So the company's application reflects the continuation of
4 rate components one through three in operating expense and the rate
5 basing of rate component four.⁶³

6 She explained that test year amounts for rate component three are *de minimus*.⁶⁴ RUCO Exhibit No.
7 20 shows the amounts for the first three rate components as follows:

8	Rate Component One:	\$632,762
9	Rate Component Two:	\$1,240,822
10	Rate Component Three:	\$55,888 ⁶⁵

11 The Company included rate component four in Rate Base Adjustment JMR-5.⁶⁶ The total
12 amount was \$677,723, which includes an effluent quality upgrade (\$437,896) and for a
13 dechlorination upgrade (\$239,827).⁶⁷ The Company initially included the Tolleson Trickling Filter in
14 operating expenses.⁶⁸ Tolleson charged for the upgrade through rate component three.

15 During the hearing, the Company and Staff agreed not to change prior inclusion of rate
16 component three costs in operating expenses. However, the parties agreed to treat rate components
17 three and four as regulatory assets on a going forward basis.⁶⁹ In this proceeding, costs for rate
18 component three were \$444,000 for the Trickling Filter.⁷⁰ Ms. Hains found the upgrade to be
19 necessary and reasonable.⁷¹ Costs for rate component four were \$677, 723 as identified in Rate Base
20 Adjustment JMR-5. Staff includes both in rate base on Final Position Schedule DRR-4.

21 Ms. Diaz Cortez testified that the \$55,888 for rate component three was incurred prior to the
22 third amendment to the Tolleson Agreement. Accordingly, Staff is not including that amount in rate
23 base.⁷² On the other hand, Ms. Diaz Cortez agreed that a question presented in this proceeding is how
24 to treat future costs under rate component three.⁷³

25 ⁶³ TR: 683, line 12 to 684, 25.

26 ⁶⁴ *Id.* at 681, line 25 to 682, line 2.

27 ⁶⁵ RUCO-20.

28 ⁶⁶ S-37.

⁶⁷ Note that the Company accepted Staff's exclusion of Y2K costs \$129,445. *Cf.* Company Rate Base Adjustment JMR-5 to Staff Final Position Schedule DRR-4, line 72. See also Final Position Schedule DRR-11, line 1. See also S-5 at 9, ll. 3-12.

⁶⁸ Company Income Statement Adjustment JMR-5 at line 5.

⁶⁹ TR: 723, line 6 to 726, line 12; see also *Id.* at 730, ll. 1-15; and AZ-AM - 14 at 2, ll. 13-20.

⁷⁰ Staff Final Position Schedule DRR-4, line 66. docketed 9/21/07

⁷¹ S-1, Exhibit DMH-1 at 5.

⁷² TR: 698, ll. 8-21.

⁷³ *Id.* at 700, ll. 7-10.

1 In RUCO Exhibit R-20, the Company noted that it inadvertently left out \$218,886 in interest
2 expense under rate component one. Staff agreed to allow the Company to correct the error now
3 rather than later. The history of the Tolleson Obligation is complex. Furthermore, it was difficult in
4 this proceeding to identify all relevant facts. Staff also agreed to the correction as part of the overall
5 agreement for the Tolleson Obligation. Staff included the interest on Final Position Schedule DRR-
6 12, line 10, column B.

7 A final issue related to the Tolleson Agreement is whether it should be included in the
8 Company's capital structure as debt. In the Anthem Water and Anthem/Agua Fria Wastewater case,
9 Staff proposed treating it as debt. Staff now recommends not including the Tolleson debt in the
10 capital structure. Staff will make a new recommendation in the Anthem case. However, Staff does
11 include the debt in its Hamada adjustment. Staff's position is discussed further in the section on
12 capital structure.

13 Staff respectfully requests the Commission treat rate components three and four as regulatory
14 assets on a going forward basis. As regulatory assets, they would be included in rate base. The other
15 Tolleson rate components should continue to be treated as operating expenses. Staff also requests the
16 Commission to use an amortization period for the life of the assets rather than for the life of the
17 financing.

18 **4. The Commission Should Only Include Amortization for Imputed AIAC**
19 **and CIAC Through the End of the Test Year on December 9, 2005.**

20 Staff and the Company disagree on the amount of imputed AIAC and CIAC to be included in
21 rate base for Sun City and Sun City West. Nevertheless, the parties agree on two related issues.
22 First, the parties agree that the starting point for including imputed AIAC and CIAC in rate base is
23 January 15, 2002. That date is the end of the test year in the prior rate case.⁷⁴ Second, the parties
24 agree that the ending date for including imputed AIAC and CIAC is the end of the test year.⁷⁵

25 The disagreement is the date on which the test year ends. Staff believes that the date is
26 December 9, 2005.⁷⁶ The Company argues that the date is December 31, 2005.⁷⁷ The difference is a

27 ⁷⁴ See e.g. S-10 at 3, ll. 14-25.

28 ⁷⁵ See e.g. AZ-AM - 14 at 2, ll. 1-4.

⁷⁶ See S-8 (Sun City West) at 10, ll. 21-23 (imputed AIAC) and at 13, ll. 1-3 (imputed CIAC); and S-3 (Sun City) at 12, ll. 21-23 (imputed AIAC) and at 10, ll. 20-22 (imputed CIAC).

1 significant difference in dollars which would be included in rate base. For Sun City West, the
2 difference for imputed AIAC is \$3,818,493; and for imputed CIAC, the difference is \$233,188.⁷⁸ For
3 Sun City, the difference for imputed AIAC is \$815,222⁷⁹; and for imputed CIAC, the difference is
4 \$190,104.⁸⁰

5 Mr. Broderick argues as follows:

6 The test year in this case ends December 31, 2005, and that should not
7 be confused with the year-end closing process for which our
8 accountants stopped making physical entries on December 9...If
Arizona-American's auditors accept our books as a December 31 year-
end, the Commission should do the same.⁸¹

9 The Company's argument is without merit. Regulatory accounting has never been identical to
10 financial accounting. Differences are based on numerous regulatory considerations.

11 Staff identified the regulatory considerations relevant in this case. Staff witness Mr. Dennis
12 Rogers testified that:

13 The Company chooses to bill its customers on a thirteen week (4-4-5)
14 quarterly schedule. This means that the customer billing period in the
Company's test year was in fact from December 10, 2004 to December
15 9, 2005. The billing determinants which the Company put forth to
support its operating revenues for the test year must be synchronized
16 with the other elements of filing otherwise there is a mismatch created
among the revenues, expenses, and rate base for the test year.⁸²

17 Mr. Gerald Becker agreed and testified that "the Company's proposal creates a mismatch between
18 [sic] revenues, expenses and rate base."⁸³

19 Staff also identified the Commission's purposes for creating imputed AIAC and CIAC in
20 Decision No. 63584. Mr. Rogers and Mr. Becker explained:

21 The Company's pro forma to accelerate amortization of IR CIAC [and
22 IR AIAC] is inappropriate for the following reasons: 1) It substantially
diminishes the benefit to ratepayers that the Commission established
23 with the IR CIAC [and IR AIAC] in Decision No. 63584 and
effectively alters the amortization period specified; 2) It effectively
24 allows the Company to circumvent a portion of the provisions it agreed
to in the settlement agreement adopted by Decision No. 63584; and 3)

25 ⁷⁷ See AZ-AM - 13 at 2, ll. 11-18.

26 ⁷⁸ S-10 at 4, ll. 4-7.

27 ⁷⁹ S-5 at 6, ll. 1-3.

⁸⁰ *Id.* at 4, ll. 17-19.

28 ⁸¹ AZ-AM - 13 at 3, ll. 1-8.

⁸² S-5 at 4, ll. 8-15.

⁸³ S-10 at 3, ll. 9-12.

1 It creates a mismatch between [sic] revenues, expenses and rate base,
2 i.e., it violates the Test Year concept.⁸⁴

3 The Company has offered no explanation for why the Commission should change the amortization
4 periods established in Decision No. 63584.

5 Staff respectfully requests the Commission adopt its recommendations for imputed AIAC and
6 CIAC. Staff's recommendations preserve the purpose of the Commission's original decision.
7 Accordingly, the Commission should adopt Staff's recommended rate base for Sun City and Sun City
8 West.

9 **B. Revenue Requirement**

10 In its final schedules, the Company requests a revenue requirement of \$6,001,098 for Sun
11 City. The Company's request represents an increase of \$1,493,529, or approximately an increase of
12 33.13%, over adjusted test year revenues.⁸⁵ For Sun City West, the Company requests a revenue
13 requirement of \$5,818, 468. The request represents an increase of \$1,271,943, or approximately an
14 increase of 27.98%, over adjusted test year revenues.⁸⁶

15 Staff recommends a revenue requirement of \$5,869,400 for Sun City. Staff's
16 recommendation represents an increase of \$1,386,545, or approximately an increase of 30.93%, over
17 adjusted test year revenues.⁸⁷ Furthermore, Staff recommends a revenue requirement of \$5,617,155
18 for Sun City West. Staff's recommendation represents an increase of \$1,078,750, or approximately
19 an increase of 23.77%, over adjusted test year revenues.⁸⁸ For both districts the differences are
20 primarily due to the following two factors: 1) cost of capital and 2) rate based disputes as described
21 above.

22 **C. Rate Design**

23 No party disputes that Decision No. 67093 set an expectation that volumetric rates would be
24 developed and analyzed in this rate case. Pro forma volumetric rates are necessary for the
25 Commission to make relevant findings of fact. Findings of fact are needed to answer the three

26 ⁸⁴ S-8 at 12, ll. 1-9 and at 9, line 21 to 10, line 3 (Sun City West); and S-3 at 9, line 20 to 10, line 2 and at 11, line 21 to
27 12, line 3 (Sun City).

28 ⁸⁵ AZ-AM Final Exhibit Schedule A-1 (Line 28) for Sun City. Docketed 9/14/07

⁸⁶ AZ-AM Final Exhibit Schedule A-1 (Line 28) for Sun City West. Docketed 9/14/07

⁸⁷ Staff's Final Position Schedule DRR-1. Docketed 9/21/07

⁸⁸ Staff Surrebuttal Schedule GWB-1 (Revised). Docketed 10/4/07

1 questions posed in Decision No. 67093. But developing pro forma volumetric rates and comparing
2 them to flat rates is only a first step. Additional informational gathering and analysis of potential
3 impacts on consumer behavior are necessary to completely address two of the three questions.

4 A threshold question is: Who bears the burden to gather sufficient information for the
5 Commission to make its determinations? Decision No. 67093 is unambiguous. The Commission
6 stated, “[W]e will require Arizona-American to include a proposal in its next rate case filing....that
7 will present information on [the following three questions].”⁸⁹ The burden was placed on the
8 Company, not Staff and not RUCO. Notwithstanding the language of the decision, Staff developed
9 its own proposals for volumetric rates and flat rates. But it is important to recognize that Staff was
10 not required to provide original data or information to answer the three questions.⁹⁰ Nevertheless,
11 Staff recognizes its unique role to aid the Commission in making decisions.

12 The Company complied with the third question: “[W]hat tiered wastewater rates based on
13 water consumption would look like compared to a flat rate.” However, the Company provided
14 insufficient information to adequately answer the other two questions: “1) [W]hether wastewater
15 rates based on water consumption encourage water conservation; and 2) [W]hether higher bills for
16 those who use the system more is a fairer way to collect revenue.” Arizona-American Water
17 provided some opinion testimony and data. The opinion testimony and data was far from sufficient
18 to adequately inform the Commission.

19 The first question is a question about behavior of consumers. The second question is a
20 question about relative equities. Information addressing the second question would obviously serve
21 as a foundation for a policy choice. Staff believes the Company did not provide sufficient
22 information for the first two questions. Sufficient information would help the Commission
23 understand what is statistically significant or representative of the Company’s customer base.

24 Unfortunately, the Company missed opportunities to gather relevant and appropriate
25 information. Company witness, Mr. Charles Loy testified about his due diligence and the Company’s
26 due diligence, to the extent it was shared with him. Even though the Company initially supported
27

28 ⁸⁹ Decision 67093 at 42, ll. 5-11.

⁹⁰ See also TR: 223, line 16 to 224, line 4.

1 volumetric rates,⁹¹ it ultimately agreed with some of RUCO's reasons for maintaining flat rates.⁹²

2 Mr. Loy testified as follows:

3 After [volumetric rates were] developed, it became apparent that
4 implementation for the Residential class would be difficult with
5 questionable results....RUCO witness Mr. Coley also presented a
6 number of reasons why a move to a volumetric residential rate is not
7 advisable. Like Mr. Broderick, Mr. Coley doubts that a "meaningful
8 conservation message" would be conveyed with a Residential
9 volumetric wastewater rate design. Also, Mr. Coley questions whether
10 the move from flat to volumetric would be cost beneficial.⁹³

11 In his Rebuttal Testimony, Mr. Broderick also identified three reasons for retaining flat rates.⁹⁴

12 The Company's change of position is very troubling for a simple reason. The Company failed
13 to conduct sufficient due diligence. It argues that volumetric rates are premature because the
14 Company does not have sufficient information. For example, Mr. Loy testified:

15 Arizona-American has not conducted an analysis of the cost of such a
16 change. Further, any cost analysis Arizona-American could conduct
17 would be limited to only tangible costs such as time and materials. As
18 Mr. Broderick implies in his Rebuttal, however, there are intangible
19 costs such as public relations and goodwill which can not [sic] be
20 estimated.⁹⁵

21 The Commission issued Decision 67093 on June 30, 2004. The Company was on notice
22 about the information required to be in this filing. The information cited by the Company is either
23 speculative; or related to issues that could have been addressed with sufficient due diligence.

24 For example, Mr. Loy stated, "There was no discussion of a cost/benefit analysis that I had
25 with anyone with the company. Only when RUCO addressed it in their direct testimony did that
26 come up."⁹⁶ The Company did not investigate the cost to change its billing system.⁹⁷ Nevertheless,
27 Mr. Loy explained that "the change in billing systems is always an issue when you are developing a
28 new rate design."⁹⁸ Furthermore, the Company did not investigate the costs to install sub-meters for
29 multiple dwelling units.⁹⁹

30 ⁹¹ AZ-AM – 5 at 5, ll. 1-5; and 9 at ll. 4-10.

31 ⁹² AZ-AM – 6 at 3, line 16 to 4, line 5.

32 ⁹³ *Id.*

33 ⁹⁴ AZ-AM – 13 at 14, ll. 1-21.

34 ⁹⁵ AZ-AM – 6 at 4, ll. 1-5.

35 ⁹⁶ TR: 224, ll. 16-21.

36 ⁹⁷ *Id.* at 225, line 11 to 226, line 8.

37 ⁹⁸ *Id.* at 225, ll. 16-19.

38 ⁹⁹ *Id.* at 237, line 22 to 238, line 8.

1 At the hearing Mr. Loy further testified about the Company's compliance with Decision No.
2 67093. He stated that the entirety of the Company's compliance appears in his Direct Testimony
3 from page 14 to 17.¹⁰⁰ But Mr. Loy also clarified his pre-filed testimony at the hearing. In response
4 to the first question in Decision No. 67093, Mr. Loy stated:

5 THE WITNESS: Basically, there wasn't really a whole lot of
6 analysis needed. It was just based on my experience that if you have a
7 volumetric water rate, wastewater rate, that it will encourage
conservation, because the person has to pay for all the volumes that
they use.

8 COM. MAYES: Okay. So you checked that off as it would - -

9 THE WITNESS: Yes.

10 COM MAYES: - - encourage conservation. Okay. Number two,
11 whether higher bills for those who use the system more is a fair way to
collect revenue, what did you do to analyze that?

12 THE WITNESS: Basically, again, that's a very basic, that's a
13 basic ratemaking question, is that, you know, the whole theory
surrounding ratemaking is that basically, you know, the premise is that
14 people who use the system more should pay more. So it is a pretty
common understanding.¹⁰¹

15 Mr. Loy also testified that "there [are] lots of studies out there on wastewater rates and conservation
16 rates. And it is generally accepted that the more you charge, the less will be used."¹⁰² He did not,
17 however, provide any studies to the Company.

18 Putting aside information gathering and analysis, the Company confirms that volumetric rates
19 are not uncommon for wastewater rates.¹⁰³ Mr. Loy acknowledged that the industry is moving from
20 flat rates to volumetric rates. He explained that the reason for the trend is that volumetric rates
21 allocate costs fairly to customers.¹⁰⁴ In Arizona, the City of Phoenix uses volumetric rates for
22 wastewater based on water consumption.¹⁰⁵

23 The Company's final position on rate design is based on three assertions. Mr. Broderick
24 testified that volumetric rates 1) would shift costs from seasonal ratepayers to year round ratepayers;
25

26 ¹⁰⁰ *Id.* at 265, ll. 4-7.

27 ¹⁰¹ *Id.* at 233, ll. 3-22.

¹⁰² *Id.* at 230, ll. 5-20.

¹⁰³ *Id.* at 236, line 22 to 237, line 2.

¹⁰⁴ *Id.* at 237, ll. 3-7.

¹⁰⁵ TR: 484, line 18 to 485, line 4.

1 2) would cause elderly people to conserve too much and jeopardize their health; and 3) would cause
2 stress for elderly people and would result in complaints.¹⁰⁶ The Company has not provided
3 competent evidence on any of the three assertions.

4 First, volumetric rates would not create a health and safety issue. Retirees with limited
5 financial resources will benefit from volumetric rates. Mr. Loy presented graphs that were bill
6 comparisons under flat rates and volumetric rates.¹⁰⁷ Ratepayers below the crossover points will pay
7 lower rates. For Sun City, the crossover is 4,000 gallons per month. For Sun City West, the
8 crossover is 3,500 gallons per month. If ratepayers with limited means have lower utility bills, they
9 will have more money for items that could affect their health and safety, e.g. food and medications.

10 The Company presented no evidence to support its assertion. Deductive reasoning alone
11 demonstrates the opposite of the assertion. The Commission should not be persuaded by the
12 Company's unfounded assertion.

13 Second, the Company's assertion of stress and complaints is unfounded and based on mere
14 speculation. Additionally, any stress caused by a change in rate design could easily be mitigated.
15 Mr. Loy agreed that ratepayers with sufficient financial resources would unlikely experience stress if
16 their wastewater rates increased.¹⁰⁸ Mr. Loy also admitted the following:

17 Q. And if you use flat rates, a customer that has less means and uses
18 less water, would they generally be subsidizing customers that use
19 more water and maybe greater means?

19 A. Yes, I would say.¹⁰⁹

20 For ratepayers who have less means and experience a rate decrease, a volumetric rate design would
21 be very unlikely to cause stress and confusion.

22 Finally, the Company did not attempt to survey its customers or educate them in any
23 systematic manner. Mr. Loy admitted that the Company could have conducted a survey to determine
24 possible reactions to a change in rate design.¹¹⁰ The Company conducted a survey for one of its
25

26 ¹⁰⁶ AZ-AM – 13 at 14, ll. 1-21.

27 ¹⁰⁷ AZ-AM – 5 at 16-17.

28 ¹⁰⁸ TR: 245, line 18, to 246, line 1.

¹⁰⁹ *Id.* at 246, ll. 2-6.

¹¹⁰ *Id.* at 247, ll. 14-19.

1 affiliates in Illinois.¹¹¹ Although the Company only had a 20% response rate¹¹², education prior to a
2 survey could increase the response rate.¹¹³ Mr. Loy testified as follows:

3 Q. And if there is an assumption that there will be confusion and
4 stress, wouldn't it be prudent to begin educating as soon as you
know you are going to be doing that in the future?

5 A. Yes, I would say it would be prudent.

6 The Company had sufficient time from June 30, 2004 to address all of the issues it now uses to claim
7 volumetric rates are premature.

8 The third assertion compared equities between year round ratepayers and seasonal ratepayers.
9 Again, the Company did not conduct any due diligence. It did not investigate a rate design that could
10 prevent an unfair subsidy.¹¹⁴

11 Staff's position is simple. Implement volumetric rates and phase them in over a period of
12 time. Ratepayers and the Company will have time to adjust to the change in rate design. Staff
13 developed a flat rate proposal for the Commission to be able to adopt whatever phase in period it
14 deems appropriate. Mr. Rogers testified, "[T]he transition from the flat rates to the volumetric rates
15 can be accomplished at any desirable progression."¹¹⁵

16 Staff also designed its volumetric rates to eliminate the possibility of unintended
17 consequences. Staff's rate design is fair to customers by better aligning costs with cost causation; and
18 it reasonably promotes more efficient wateruse. Mr. Becker testified as follows:

19 Staff continues to support volumetric rates because, contrary to the
20 Company's assertion, it helps link rates with the related
21 costs....Capping the volumetric rate at 5,000 gallons per month serves
22 to align water use with wastewater costs by allowing customers to use
23 water for outdoor purposes (above 5,000 gallons per month) and not
24 incurring wastewater charges. It also eliminates the need for any
customer to curtail water use for health and sanitation purposes due to
25 economic constraints....Staff's proposed rate design offers customers
with lower water usages to have a lower bill than the present flat rate
while providing a reasonable bill for customers with higher water
consumption.¹¹⁶

26 ¹¹¹ *Id.* at 486, ll. 2-7.

27 ¹¹² Note that it is generally accepted that a typical response rates is approximately 50%.

28 ¹¹³ TR: 486 at ll. 15-18.

¹¹⁴ *Id.* at 241, line 23 to 242, line 6.

¹¹⁵ S-5 at 11, ll. 17-23.

¹¹⁶ S-10 at 6, ll. 6-21; see also Mr. Rogers' Surrebuttal Testimony. S-5 at 10, ll. 11-26.

1 Staff respectfully requests the Commission to adopt its proposal for volumetric rates. Arizona
2 is an arid climate in the midst of an 11-year drought. Volumetric rates are becoming increasingly
3 common. Moreover, they are most beneficial in Arizona because of the scarcity of water.

4 **D. Capital Structure**

5 Staff recommends a capital structure of 38.5% equity and 61.5% debt.¹¹⁷ The
6 Company recommends a capital structure of 41.1% equity and 58.9% debt. Staff's capital structure
7 recommendation is based on the Company's actual capital structure as of June 30, 2007.

8 The primary differences between Staff's proposed capital structure and the Company's, is that
9 the Company is not including any short-term debt in its proposed capital structure. The Company
10 opposes inclusion of any short-term debt because it argues that "[s]hort-term debt can and does
11 change significantly from month-to-month and season-to-season to meet working capital needs and to
12 finance Construction Work in Progress."¹¹⁸ Financing working capital needs is one use of short-term
13 debt.¹¹⁹ Working capital is a contemplated component of rate base.¹²⁰ This is not, however, the only
14 potential use of short-term debt.¹²¹ Short-term is one component of the Applicant's capital pool.¹²²
15 Dollars from individual capital sources that comprise the pool can not be attached to specific uses.¹²³
16 Hence, as Staff Witness Chaves testified it is appropriate to include such form of debt in the
17 Applicant's capital structure.¹²⁴ The Commission's rules, A.A.C. R14-2-103, Schedule D-2 in fact
18 show short-term as a component of the cost of capital.¹²⁵

19 The Company's argument that the Staff's proposal to include short-term debt also is at cross
20 purposes with the 2005 Equity Plan is similarly flawed. Mr. Broderick states that:

21 The 2005 equity plan set an equity a ratio target of 40% to be sustained
22 starting in 2010. At that time, Staff did not include short-term debt as
23 part of Arizona-American's capital structure."¹²⁶

24 ¹¹⁷ Final Schedule PMC-9

25 ¹¹⁸ A - 13, p. 5, ll. 13-15.

26 ¹¹⁹ S- 13, p. 4, ll. 24-25.

27 ¹²⁰ S - 13, p. 4 1. 25 and p. 5.

28 ¹²¹ S - 13, p. 5, l. 2.

¹²² S-13, p. 5, l. 3.

¹²³ S-13, p. 5, ll. 4-5.

¹²⁴ S - 13, p. 5, ll. 5-6.

¹²⁵ S - 13, p. 5, ll. 6-7.

¹²⁶ AZ-AM-13, p. 6, ll. 4-9.

1 While as Mr. Chaves pointed out Commission Decision No. 68310 dated November 14, 2005
2 ordered the Company to file an equity plan to achieve and maintain an equity ratio between 40 and 60
3 percent of total capital, the Commission clearly contemplated that the Company's capital structure
4 would include short-term debt.¹²⁷ The Commission's Order states in relevant part:

5 IT IS FURTHER ORDERED that Arizona-American Water Company
6 shall file a plan with Docket control by December 31, 2005 that
7 describes how the Company expects to attain and maintain a capital
8 structure (equity, long-term debt, and *short-term debt*) with equity
representing between 40 and 60 percent of total capital. (Emphasis
added).¹²⁸

9 The Company further argues that "... Arizona-American's financial situation requires a
10 projected equity ratio of not less than 40% for ratemaking purposes"¹²⁹. As mentioned in Staff's
11 direct testimony¹³⁰, it is the Company's responsibility to take the appropriate actions to achieve an
12 equity ratio of not less than 40 percent. Placing the burden on ratepayers by requesting higher returns
13 either directly or indirectly via a hypothetical capital is not appropriate.

14 For purposes of this rate proceeding Staff is recommending a financial risk adjustment. The
15 financial risk adjustment recognizes the additional risk represented by the Company's additional
16 leverage compared with the sample companies and increases the revenue requirement to provide
17 additional income to grow equity. In the future, the Company should improve its equity position to
18 reduce or eliminate this additional financial risk. Ratepayers should not be required to compensate
19 the Company for its relatively weak financial position by paying inflated rates based on a
20 hypothetical capital structure that depicts a more financially sound service provider than actually
21 exists.

22 Staff's COE recommendation in the event that the Commission decides to adopt a
23 hypothetical capital structure composed of 60 percent debt and 40 percent equity (as initially
24 proposed by the Company), other things being equal, would be 10.4 percent inclusive of an upward
25 financial risk adjustment of 60 basis points. The resulting overall rate of return would be 7.4 percent.

27 ¹²⁷ S - 13, p. 5, ll. 12-14.

¹²⁸ Decision No. 68310 at p. 15.

¹²⁹ AZ-AM-13, p 6.

¹³⁰ S - 12, p. 37, ll 9-12.

1 Staff's COE recommendation in the instance that the Commission decides to adopt the
2 Applicant's rebuttal proposed capital structure and cost of debt, other things being equal, would be
3 10.3 percent inclusive of an upward financial risk adjustment of 50 basis points. The resulting overall
4 rate of return would be 7.4 percent.

5 Finally, Mr. Broderick's argues that "If the Commission ultimately agrees with Mr. Chaves'
6 recommendation to include short-term debt for rate-making purposes, Arizona-American will need at
7 least one more year to achieve and maintain a 40% equity target"¹³¹. The Commission has not
8 changed the definition of capital structure as defined by Decision No. 68310, and the Company has
9 provided no support for this assertion. Achieving an adequate capital structure is a responsibility of
10 the Company not to be achieved by disadvantaging ratepayers through discarding proper ratemaking
11 principles.

12 **E. Cost of Capital**

13 Staff's final recommended Return on Equity ("ROE") and overall Rate of Return ("ROR") are
14 10.6% and 7.5%, respectively.¹³² The Company's recommended ROE and ROR are 11.75% and
15 8.0%, respectively.¹³³

16 Staff's recommendations use market-based financial models that have been accepted by this
17 Commission for many years. Staff uses both historical and forecasted inputs. All of Staff's inputs
18 are factors which investors can reasonably be expected to consider in determining their expected rate
19 of return. The models are also widely accepted in the financial industry and by most state
20 commissions in setting just and reasonable rates of return.

21 The Company's use of market-value capital structures to determine rates of return is
22 inconsistent with the practice known to investors that regulators authorize returns on the book value
23 of property devoted to public service.

24 The after-tax weighted average cost of capital ("ATWACC") methodology proposed by the
25 Company has not been extensively used or reviewed in the regulatory environment. Furthermore, the
26

27 ¹³¹ AZ-AM-13, p. 12-13.

28 ¹³² S - 12, p.

¹³³ AZ-AM- 15.

1 ATWACC methodology has been recently rejected by the Arizona Corporation Commission in at
2 least two recent cases involving Arizona-American.¹³⁴

3 **A. The Commission Should Adopt Staff's Recommended ROE of 10.6% Because It**
4 **Is Based On Proven Financial Models And On Balanced And Reasonable Inputs.**

5 To determine the required ROE, Staff used the following financial models: (1) the constant
6 growth discounted cash flow ("DCF") model (8.6%)¹³⁵; (2) the multi-stage DCF model (9.6%); and
7 (3) the capital asset pricing model ("CAPM"). Staff used two CAPM estimates, one using an
8 historical market risk premium (11.4%), and one using a current market risk premium (9.6%).

9 Staff did not directly estimate Sun City's cost of equity because Sun City's stock is not
10 publicly traded and using an average of a representative sample group results in a reliable estimate.¹³⁶

11 The theory underlying use of the DCF to estimate cost of capital is that the cost of equity is
12 the discount rate which equates the current market price to all future cash flows expected by
13 investors.¹³⁷ Staff used two versions of the DCF: the first was the constant growth DCF which
14 assumes that an entity will grow indefinitely at the same rate; and the second version is known as the
15 non-constant growth DCF which does not assume one constant, indefinite dividend growth rate.¹³⁸
16 Staff then calculated an average of the DCF results produced from both versions (9.1%).¹³⁹

17 Staff then used another widely used model for estimating ROE known as the CAPM model.
18 Staff used the same sample water utilities for its CAPM computation that it used for its DCF
19 analysis.¹⁴⁰ The CAPM describes the relationship between a security's investment risk and its market
20 rate of return.¹⁴¹ The CAPM model assumes that investors will sufficiently diversify their
21 investments to eliminate any non-systematic or unique risk.¹⁴² Staff then calculated an average for
22 the CAPM results (10.5%).

23 ...

24
25 ¹³⁴ See Decision No. 69440 and No. 68858..

26 ¹³⁵ The percent in parentheses in each instance represents the average of the results for each model.

27 ¹³⁶ S - 12, p. 14, ll. 4-8.

28 ¹³⁷ S - 12, p. 15, ll. 4-7.

¹³⁸ S - 12, p. 15, ll. 21-24

¹³⁹ S - 12, Attachment PMC-2

¹⁴⁰ S-12, p. 28, ll. 10-11.

¹⁴¹ S - 12, p. 27, ll. 22-25.

¹⁴² S - 12, p. 28, ll. 3-4.

1 Staff then calculated the average for both models (9.8%). Staff made a financial risk
2 adjustment of 80 basis points to reflect that Arizona-American has more financial risk than the
3 sample companies. To do this, Staff used the methodology developed by Professor Robert Hamada
4 of the University of Chicago, which incorporates capital structure theory with the CAPM, to estimate
5 the effect of Sun City's capital structure on its cost of equity.¹⁴³ This financial risk adjustment
6 results in a ROE of (10.6%),¹⁴⁴ which results in a ROR of 7.5%¹⁴⁵.

7 For the constant growth DCF, Staff calculated the growth factor by averaging the results of
8 six different methods for calculating it.¹⁴⁶ The growth factor is the most frequently disputed input in
9 the model. Staff chose a balanced methodology that "gives equal weight to historical and projected
10 earnings per share ("EPS"), dividends per share ("DPS"), and sustainable growth."¹⁴⁷ Staff witness
11 Mr. Pedro M. Chaves testified that his choice of inputs avoids the skewing that can occur by a less
12 balanced analysis.¹⁴⁸

13 Dr. Villadsen criticized Staff's choice of inputs because two of the growth rates used in
14 Staff's constant growth DCF would result in a COE estimate that is lower than the current yield on a
15 BBB-rated utility bond.¹⁴⁹ Mr. Chaves testified that if the Commission adopted Dr. Villadsen's
16 suggested approach, it should also exclude "the two highest growth components in order to maintain
17 a balanced outcome."¹⁵⁰

18 **B. The Commission Should Reject The Company's Recommended ROE Of 11.75%**
19 **Because It Is Based On a Methodology that the Commission has rejected in the**
20 **Past**

21 Company Witness Dr. Villadsen arrived at her recommendation through use of single and
22 multi-stage DCF models as well as the CAPM just as Staff utilized but also employed the empirical
23

24
25 ¹⁴³ S - 12, p. 35, ll. 11-16.

26 ¹⁴⁴ S-13, p. 2, ll. 10-12

27 ¹⁴⁵ S-96.

28 ¹⁴⁶ S-12, p. 17, ll. 12-15.

¹⁴⁷ S-12, p. 17, ll. 13-15.

¹⁴⁸ S-13, p. 8, ll. 17-20.

¹⁴⁹ AZ-AM 16, p. 10.

¹⁵⁰ S-13, p. 8, ll. 17-25.

1 capital asset pricing model ("ECAPM") to produce her 11.75% ROE recommendation.¹⁵¹ Dr.
2 Villadsen used a sample of water companies and gas companies in her analysis.¹⁵²

3 Mr. Chaves explains her methodology as follows:

4 Dr. Villadsen first estimates the cost of equity for the sample
5 companies using these analyses. Second, she estimates an after-tax
6 weighted average cost of capital ("ATWACC") for each company in
7 the water and gas samples using each entity's market value capital
8 structure. Third, she calculates an average ATWACC (under each
9 DCF, CAPM and ECAPM analyses) for the water and gas samples.
Finally to compute an estimated cost of equity for Sun City, she
calculates the cost of equity that equates the ATWACC for an entity
with a hypothetical capital structure composed of 40 percent equity and
60 percent debt (as proposed by the Applicant) to the average
ATWACC for the samples.¹⁵³

10 The biggest difference between Staff and the Company is that Dr. Villadsen relies on market-
11 value capital structures, while Staff relies on book- value capital structures. Witness Chaves pointed
12 out that Dr. Villadsen's suggestion to use market value capital structures to determine rates of return
13 for regulated entities, ignores that investors take into consideration that regulators authorize rates of
14 return based on book value capital structures.¹⁵⁴ Moreover, Mr. Chaves pointed out that "[a]n
15 attempt by a regulating authority to authorize ROEs to match a market value, when the market value
16 differs from book value, only serves to maintain stock prices", which is not the mandate of the
17 Commission.¹⁵⁵

18 Dr. Villadsen's asserts that "...the Pennsylvania Public Utility Commission has adopted a
19 financial risk adjustment similar to the adjustment I have recommended here... and that the Missouri
20 Public Service Commission has in the past accepted a method similar to the one presented here."¹⁵⁶
21 Also the United States Surface Transportation Board relies on a market value capital structure to
22 estimate the cost of capital for railroads."¹⁵⁷ The cited examples represent a small portion of the rate
23 regulated universe and show that this is not a widely accepted methodology. In addition, the State
24 regulatory commissions relied upon by the Company only used a similar methodology in 1 or 2

25 ¹⁵¹ S - 12, p. 40, ll. 5-6.

26 ¹⁵² Id.

27 ¹⁵³ S - 12, p. 40, l. 7 - p. 41, l. 8.

28 ¹⁵⁴ S - 12, p. 8, ll. 6-11.

¹⁵⁵ S - 12, p. 8, ll. 8.

¹⁵⁶ AZ-AM-16, p.12, ll.4-8.

¹⁵⁷ Ibid. page 12.

1 decisions dating back to 2004 and 2006.¹⁵⁸ Moreover, the Missouri Commission's adoption of the
2 method was not complete. The Missouri PSC ultimately only granted a 30 basis point adjustment
3 when use of the method suggested a 60 basis point adjustment.¹⁵⁹ With the exception of these few
4 isolated decisions, the methodology has actually been rejected or not adopted by every other state
5 commission to consider it and by the Federal Energy Regulatory Commission.

6 This Commission has rejected the ATWACC methodology in the past, recognizing that the
7 ATWACC methodology produces an inflated estimate that would overcompensate for financial risk
8 and would require customers to overcompensate investors¹⁶⁰. Further, the Commission has
9 confirmed that previous decision not to adopt Dr. Villadsen's methodology recently.¹⁶¹

10 **III. METER READING INVESTIGATION**

11 On February 15, 2007, the Commission Staff filed the results of the Meter Reading and
12 Billing Investigation Report conducted by Barrington-Wellesley Group¹⁶². This report was
13 commissioned by the Commission Staff to look at usage estimation, meter reading refunding and
14 billing practices of Arizona-American.

15 The investigation ensued because in late August 2005, the Company and Utilities Division
16 Staff began to receive calls from customers located in its Sun City, Sun City West and Agua Fria
17 Districts regarding unusually high water bills. Over a three and one half month period, AAWC
18 received approximately 1,667 calls to a customer complaint hotline. The Commission received
19 approximately 226 complaints from customers of AAWC over the same period of time related to
20 higher than normal bills. Staff's consultant, Mr. Joel Jeanson, a manager with the Huron Consulting
21 Group, presented testimony on the Report and its findings and recommendations.

22 The Report identified the objectives of the investigation as follows:

- 23 1. Determine if there is a systemic and/or pervasive problem with Arizona-
24 American Water Company (AAWC) in terms of meter reading and the
25 rendering of accurate customer bills.

26 ¹⁵⁸ TR: 3741 (Villadsen).

27 ¹⁵⁹ Re. *The Empire District Electric Company*, Case No. ER-2004-0570, 2005 WL 59061 (March 10, 2005).

28 ¹⁶⁰ Decision No. 68858, dated November 14, 2006, page 27.

¹⁶¹ Decision No. 69440, dated May 1, 2007, pages 15-20.

¹⁶² Barrington-Wellesley Group ("BWG") was acquired by Huron on April 1, 2007.

- 1 2. To the extent that the problem is determined not to be pervasive for the
2 entire system:
- 3 a. Determine that the meter reading problem is isolated to a specific
4 instance or instances;
- 5 b. Identify the timeframe(s) in which the meter reading errors occurred;
6 and
- 7 c. Determine that the remedy applied is symmetric with harm incurred.
- 8 3. Determine that the methods of refunding amounts overbilled are
9 reasonable.¹⁶³

10 The Report contained 21 findings and conclusions and 16 recommendations.¹⁶⁴ Overall, the
11 Report concluded that the recurring meter reading problems in 2005 suggested that the Company had
12 not properly emphasized the importance of actual meter readings in generating accurate customer
13 bills when training and managing its meter reading staff, especially given the Company's inverted
14 rate structure.¹⁶⁵ It found that the majority of the amounts overbilled were the result of curbed meter
15 readings in July and August 2005, and that meter readings had been curbed in prior months as well in
16 the Sun City, Sun City West and Agua Fria districts.¹⁶⁶ It also found that the Company did not take
17 timely action in response to the problems occurring in 2005.¹⁶⁷ Meter reading procedures have only
18 recently been documented in a formal meter reader training manual.¹⁶⁸ The Report found that
19 Company management ultimately took action in 2005 to prevent problems from recurring.¹⁶⁹ Other
20 important findings included the following:

21 * * * *

- 22 7. AAWC meter reading practices are generally reasonable and consistent with
23 industry standards. (See Recommendation No. 4)
- 24 8. AAWC internal controls to ensure meter reading accuracy need to be
25 strengthened. (See Recommendations Nos. 1 and 8)
- 26 9. Meter reading practices are consistent with Commission rules and tariffs
27 with three exceptions. Estimated bills have been rendered for reasons other
28 than those allowed by the Arizona Administrative Code (A.A.C.) R14-2-409.5.
29 Specific action is not taken to obtain an actual meter reading after two

30 ¹⁶³ S - 24; p. I-1.

31 ¹⁶⁴ S - 24; p. I-1-5.

32 ¹⁶⁵ S - 24, p. I-1.

33 ¹⁶⁶ *Id.*

34 ¹⁶⁷ S - 24, p. I-1.

35 ¹⁶⁸ *Id.*

36 ¹⁶⁹ *Id.*

consecutive estimates which is a violation of A.A.C. R14-2-409.3. Additionally, curbed meter readings violate R14-2-408A, which requires the actual reading of a meter on a monthly basis. However, given that customers on Master Route 3 whose meter readings were curbed received appropriate, if not generous, refunds, the existing remedy appears to be symmetric with the harm incurred and, therefore, no penalties are recommended. (See Recommendation No. 8)

10. The curbed meter reading and overbilling problems identified in 2005 are not indicative of a systemic or pervasive problem with AACW usage estimation and billing processes; however, the billing exceptions criteria used by the Company was too broad to effectively detect either the underbilling (July and August bills) or overbilling (September) problems in Arizona. (See Recommendation No. 9).

* * * *

12. The Company's inability to identify the problem, and the cause of the problem, on a timely basis resulted in dissatisfaction among those Arizona Customers who called the call center with questions regarding their high bill following the two months of low bills based on the curbed meter readings. (See Recommendation Nos. 10 and 11).
13. AAWC has taken action in response to the identified usage estimation and billing related problems to help prevent these problems from re-occurring; however, these actions have not at this time resulted in the development of red flags or early warning systems to identify potential problems on a more timely basis. (See Recommendation No. 11).
14. Billing practices are generally consistent with Commission rules and tariffs; however, accounts with consecutive estimates are not reported as billing exceptions until a customer has received five consecutively estimated bills. This practice increases the likelihood that AAWC is not complying with the A.A.C. R14-2-409.3 requirements that after the second consecutive month of estimating the customer's bill for reasons other than severe weather, the Company must attempt to secure an actual meter reading. (See Recommendation No. 5).
15. Usage estimation and billing practices are generally reasonable and consistent with industry standards. (See Recommendation No. 12).
16. Usage estimation calculation practices result in reasonably accurate estimated bills. (See Recommendation No. 14).
17. While customer service and billing training programs appear to be appropriate and comprehensive, customer complaints related to interactions with American Water customer service representatives indicate that the training programs may not be effective. (See Recommendation No. 13).

19. The process used to provide refunds to customers whose meter readings were curbed ultimately resulted in appropriate, if not generous, refunds to customers on Master Route 3.

20. Actions taken by the Company to ensure that refunds were provided to customers who received bills based on curbed meter reading on routes other than Master Route 3 were not sufficient. (See Recommendation No. 15).¹⁷⁰

The Report then set out 16 recommendations.¹⁷¹ The Company responded to the Report in a filing submitted in the docket on July 11, 2007.¹⁷² The Company indicated agreement with eleven of the sixteen recommendations in the Report and that it had already taken or agreed to take appropriate actions consistent with the recommendations.¹⁷³ In addition, Staff's consultant agreed with the Company on the following points: (1) all reporting deadlines to the Commission be set at 12 months after the date of a final order in this case; (2) the review of the over-ride reports by supervisory personnel in recommendation number 2 be conducted weekly rather than daily; and (3) the quality control meter reading inspections in recommendation number 6 be changed from monthly to quarterly.¹⁷⁴

However, the Company also took exception to Recommendations 9, 12, 14 and and 15 of the Report.¹⁷⁵ Recommendation No. 9 requires "AAWC to adjust the parameters on the high/low billing exceptions test to customer-specific parameters based on current period amounts billed for water services compared to the billing for the same period prior year (or prior month) at the same premises."¹⁷⁶ This Recommendation was to be completed within six months of a decision in this matter with documentation of the change provided to the Utilities Division, Consumer Services Chief.¹⁷⁷ The Company agreed to partial implementation of Recommendation 9 objecting to implementation of the low-use billing exceptions test. Staff believes that implementation of the low-

¹⁷⁰ S - 24, pp. I-2 - I-3.

¹⁷¹ S - 24, pp. I-4 - I-5.

¹⁷² S - 11, p. 2, ll. 13-16.

¹⁷³ S - 11, p. 2, ll. 21-24.

¹⁷⁴ S - 11, p. 3, ll. 12-17.

¹⁷⁵ S - 11, p. 3, ll. 1-10.

¹⁷⁶ S - 24, p. I-5.

¹⁷⁷ S - 24, p. I-5.

1 use billing exceptions test is necessary to identify billing problems as early as possible.¹⁷⁸ Further,
2 Mr. Jeanson testified that “[i]n cases that gave rise to this investigation, the curbed meter readings,
3 the high bills occurred as a result of low meter readings in the month or months before the high
4 bill.”¹⁷⁹ With the inverted block rate structure, i.e., the tier 2 and tier 3 rates being higher than the tier
5 1 and tier 2 rates, detecting low bill problems early is essential to ensuring that customers ultimately
6 will not be overbilled.¹⁸⁰

7 The Company also objects to implementation of Recommendation No. 12 which requires the
8 Company to “simplify the ‘cancel/re-bill’ procedure.”¹⁸¹ Staff’s consultant made this
9 recommendation to ensure that more accurate usage information is retained and made available upon
10 which to calculate estimated bills.¹⁸² During the hearing, Mr. Jeanson further elaborated on why
11 Recommendation 12 was important:

12 The issue is that you have got consumption that is estimated and then
13 you finally get an actual read, you really want to go back into all period
14 in which that bill was generated and try to correct the earlier months.
15 And it is important to correct the earlier months to a better estimate of
what that consumption should have been because those months will be
sued in subsequent years as the basis for future period estimated bills.

16 And when they [the Company] explain the cancel/rebill process, it
17 sounded as though they generally just use that process for a two-month
18 period, which led us to believe that, if it were a four-or five-month
period that had been estimated, that months three, four, and five may
not have been trued up to a better estimate of what that actual
consumption would have been during those months.¹⁸³

19 Mr. Jeanson further testified that since his testimony was filed, the Company had indicated
20 that alternative procedures are in place and they do not just use the cancel/rebill procedure to get the
21 consumption to the correct levels in the correct months.¹⁸⁴ If this is true, then the Company, at a
22 minimum, needs to have written procedures related to the correction of consumption in prior periods
23 when billing adjustments are made that affect more than two billing periods, in place.¹⁸⁵ It also needs
24

25 ¹⁷⁸ S – 11, p. 3.

26 ¹⁷⁹ S – 11, p.3, l. 26, p. 4, l. 1

27 ¹⁸⁰ TR : 294 (Jeanson)

28 ¹⁸¹ S – 24, p. I-5.

¹⁸² *Id.*

¹⁸³ TR : 295-296 (Jeanson).

¹⁸⁴ TR : 296 (Jeanson).

¹⁸⁵ *Id.*

1 to be included in the Company's training manuals.¹⁸⁶ However, if the Company can simplify the
2 cancel/rebill procedure, this would be preferred if it is cost effective.¹⁸⁷

3 The Company also objected to Recommendation 14 which required it "to automate the filling
4 adjustment process."¹⁸⁸ Mr. Jeanson testified that one of the concerns that gave rise to this
5 recommendation was the very real possibility of the number of billing adjustments increasing as a
6 result of tightening the system of billing-related internal controls.¹⁸⁹ The billing adjustment process
7 is largely a manual process.¹⁹⁰ Mr. Jeanson also testified that because of the Company's concerns
8 with the costs associated with this change, an alternative if this recommendation is not adopted,
9 would be for the Company to provide Staff with report of trends in the number of billing adjustments
10 twelve months following the date of a final order so that this could be tracked and revisited if
11 necessary.¹⁹¹ Twelve months from now the Staff can then take another look at what those levels are
12 and determine if the Company's path towards dealing with this recommendation is still
13 appropriate.¹⁹²

14 Finally, Recommendation 15 required the Company to "programmatically identify and issue
15 refunds to those customers not located in Master Route 3 using the same program applied to Master
16 Route 3 customers."¹⁹³ The Company objected to the refunds identified by Staff's consultant as
17 being too high. Staff agreed with the Company that some of the customer may have already received
18 refunds and that the amounts calculated by Staff then should not be used as the basis for making
19 further refunds.¹⁹⁴ But Staff did not accept the Company's position that because "Arizona-
20 American's refunds were already generous" that it should not be required to make additional refunds
21 especially if these customers had not previously received a refund, but were entitled to one.¹⁹⁵ At the
22
23

24 ¹⁸⁶ *Id.*

25 ¹⁸⁷ TR : 296-297 (Jeanson).

26 ¹⁸⁸ S - 24, p. I-5.

27 ¹⁸⁹ S - 11, p. 5, ll. 6-8.

28 ¹⁹⁰ TR : 297 (Jeanson).

¹⁹¹ S-11, p. 5, ll. 10-12.

¹⁹² TR : 297 (Jeanson).

¹⁹³ S-24, p. I-5.

¹⁹⁴ S-11, p. 5, ll. 18-21.

¹⁹⁵ S-11, p. 5, ll. 18-25.

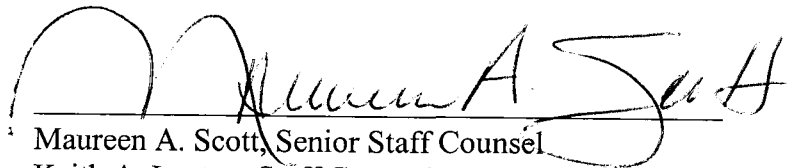
1 hearing on this matter, the Company presented an alternative refund approach which Staff found to
2 be reasonable as revised by the testimony of Staff Witness Jeanson.¹⁹⁶

3 **IV. CONCLUSION**

4 Staff respectfully requests the Commission to adopt its recommendations in this proceeding.
5 Staff also acknowledges and appreciates the efforts of the Company and RUCO to resolve many of
6 the contested issues. Finally, Staff thanks Judge Wolfe for providing time to the parties to resolve
7 several major issues.

8 RESPECTFULLY SUBMITTED this 19th day of October, 2007.

9
10 ARIZONA CORPORATION COMMISSION STAFF

11
12 
13 Maureen A. Scott, Senior Staff Counsel

14 Keith A. Layton, Staff Counsel
15 Legal Division
16 1200 West Washington Street
17 Phoenix, Arizona 85007
(602) 542-3402

18 Original and thirteen (13) copies
19 of the foregoing filed this
19th day of October 2007 with:

20 Docket Control
21 Arizona Corporation Commission
22 1200 West Washington Street
23 Phoenix, Arizona 85007

24 Copies of the foregoing mailed this
25 19th day of October 2007 to:

26 Craig A. Marks
27 Craig A. Marks, P.L.C.
28 3420 East Shea Boulevard
Suite 200
Phoenix, Arizona 85028

29 ...

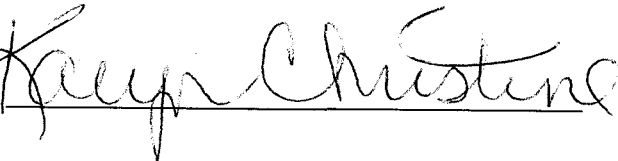
30
¹⁹⁶ TR : 298-299 (Jeanson).

1 Paul Li
2 Arizona-American Water Company
3 19820 North 7th Street
4 Suite 201
5 Phoenix, Arizona 85024

6 Dan Pozefsky, Chief Counsel
7 Residential Utility Consumer Office
8 1110 West Washington Street, Suite 220
9 Phoenix, Arizona 85007

10 Philip Jansen
11 14115 West Gunsight Drive
12 Sun City West, Arizona 85375

13 Tracy Spoon, Executive Director
14 Sun City Taxpayers Association
15 12630 N. 103rd Avenue, Suite 144
16 Sun City, Arizona 85351

17
18
19
20
21
22
23
24
25
26
27
28


ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

Docket No. WS-01303A-06-0491

Test Year Ended December 9, 2005

SURREBUTTAL TESTIMONY OF GERALD BECKER-FNAL OCT. 19, 2007

TABLE OF CONTENTS TO SCHEDULES :

<u>SCH #</u>	<u>TITLE</u>
GWB- 1	REVENUE REQUIREMENT
GWB- 2	GROSS REVENUE CONVERSION FACTOR
GWB- 3	RATE BASE - ORIGINAL COST
GWB- 4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GWB- 5	RATE BASE ADJUSTMENT #1 - ALLOCATED COMMON PLANT
GWB- 6	RATE BASE ADJUSTMENT #2 - CORRECTIONS TO PLANT BALANCES
GWB- 7	RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION
GWB- 8	RATE BASE ADJUSTMENT #4 - IMPUTED REGULATORY AIAC
GWB- 9	RATE BASE ADJUSTMENT #5 - IMPUTED REGULATORY CIAC
GWB- 9B	RATE BASE ADJUSTMENT #6 - REALLOCATION OF NW VALLEY REGIONAL TREATMENT PLAN
GWB- 10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
GWB- 11	SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR
GWB- 12	OPERATING INCOME ADJUSTMENT #1 - MANAGEMENT FEES
GWB- 13	OPERATING INCOME ADJUSTMENT #2 - DEPRECIATION EXPENSE
GWB- 14	OPERATING INCOME ADJUSTMENT #3 - PROPERTY TAX EXPENSE
GWB- 15	OPERATING INCOME ADJUSTMENT #4 - INCOME TAX EXPENSE
GWB- 16	OPERATING INCOME ADJUSTMENT #5 - REALLOCATION OF NW VALLEY REG. TREAT. FAC

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

Docket No. WS-01303A-06-0491

Test Year Ended December 9, 2005

Surrebuttal Schedule GWB-1

FINAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 21,274,020	\$ 21,274,020	\$ 16,409,137	\$ 16,409,137
2	Adjusted Operating Income (Loss)	\$ 337,149	\$ 337,149	\$ 564,856	\$ 564,856
3	Current Rate of Return (L2 / L1)	1.58%	1.58%	3.44%	3.44%
4	Required Rate of Return	8.33%	8.33%	7.50%	7.50%
5	Required Operating Income (L4 * L1)	\$ 2,052,194	\$ 2,052,194	\$ 1,230,685	\$ 1,230,685
6	Operating Income Deficiency (L5 - L2)	\$ 1,535,143	\$ 1,715,045	\$ 665,829	\$ 665,829
7	Gross Revenue Conversion Factor	1.6286	1.6286	1.6533	1.6533
8	Required Revenue Increase (L7 * L6)	\$ 2,500,183	\$ 2,500,183	\$ 1,100,841	\$ 1,100,841
9	Adjusted Test Year Revenue	\$ 6,135,801	\$ 6,135,801	\$ 4,538,405	\$ 4,538,405
10	Proposed Annual Revenue (L8 + L9)	\$ 8,635,984	\$ 8,635,984	\$ 5,639,246	\$ 5,639,246
11	Required Increase in Revenue (%)	40.75%	40.75%	24.26%	24.26%
12	Rate of Return on Common Equity (%)	11.50%	11.50%	10.40%	10.40%

References:

Column [A]: Company Schedule A-1

Column (B): Company Schedule A-1

Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 13)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 29)	39.5163%					
5	Subtotal (L3 - L4)	60.4837%					
6	Revenue Conversion Factor (L1 / L5)	1.653338					
<u>Calculation of Uncollectible Factor:</u>							
9	Unity	100.0000%					
10	Combined Federal and State Tax Rate (Line 21)	38.7417%					
11	One Minus Combined Income Tax Rate (L9 - L10)	61.2583%				61.2583%	
12	Uncollectible Rate	0.0000%					
13	Uncollectible Factor (L11 * L12)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
16	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
17	Arizona State Income Tax Rate	6.9680%					
18	Federal Taxable Income (L16 - L17)	93.0320%					
19	Applicable Federal Income Tax Rate (Line 74)	34.1535%					
20	Effective Federal Income Tax Rate (L19 x L20)	31.7737%					
21	Combined Federal and State Income Tax Rate (L17 + L20)		38.7417%				
<u>Calculation of Effective Property Tax Factor</u>							
24	Unity	100.0000%					
25	Combined Federal and State Income Tax Rate (L17)	38.7417%					
26	One Minus Combined Income Tax Rate (L24-L25)	61.2583%					
27	Property Tax Factor (GWB-14, L24)	1.2645%					
28	Effective Property Tax Factor (L26*L27)		0.7746%				
29	Combined Federal and State Income Tax and Property Tax Rate (L21+L28)			39.5163%			
33	Required Operating Income (Schedule GWB-1, Line 5)	\$ 1,230,685					
34	Adjusted Test Year Operating Income (Loss) (Schedule GWB-10, Line 43)	\$ 564,856					
35	Required Increase in Operating Income (L33 - L34)		\$ 665,829				
37	Income Taxes on Recommended Revenue (Col. (F), L70)	\$ 422,930					
38	Income Taxes on Test Year Revenue (Col. (C), L70)	\$ 1,838					
39	Required Increase in Revenue to Provide for Income Taxes (L37 - L38)		\$ 421,092				
41	Recommended Revenue Requirement (Schedule GWB-1, Line 10)	\$ 5,639,246					
42	Uncollectible Rate (Line 12)	0.0000%					
43	Uncollectible Expense on Recommended Revenue (L41 * L42)	\$ -					
44	Adjusted Test Year Uncollectible Expense	\$ -					
45	Required Increase in Revenue to Provide for Uncollectible Exp. (L43 - L44)		\$ -				
47	Property Tax with Recommended Revenue (GWB-14, Col B, L19)	\$ 261,870					
48	Property Tax on Test Year Revenue (GWB-14, Col A, L16)	\$ 247,950					
49	Increase in Property Tax Due to Increase in Revenue (L47-L48)		\$ 13,920				
51	Total Required Increase in Revenue (L35 + L39 + L45 + L49)		\$ 1,100,841				
<u>Calculation of Income Tax:</u>							
57	Revenue (Sch GWB-10, Col.(C) L5, GWB-1, Col. (D), L10)	\$ 9,021,260	\$ 4,482,855	\$ 4,538,405	\$ 11,508,646	\$ 5,869,400	\$ 5,639,246
58	Operating Expenses Excluding Income Taxes	\$ 8,573,669	\$ 4,601,958	\$ 3,971,711	\$ 8,604,895	\$ 4,619,263	\$ 3,985,631
59	Synchronized Interest (L80)	\$ 979,692	\$ 421,782	\$ 557,911	\$ 979,692	\$ 421,782	\$ 557,911
60	Arizona Taxable Income (L57 - L58 - L59)	\$ (532,102)	\$ (540,885)	\$ 8,783	\$ 1,924,060	\$ 828,355	\$ 1,095,704
61	Arizona State Income Tax Rate	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%
62	Arizona Income Tax (L60 x L61)	\$ (37,077)	\$ (37,689)	\$ 612	\$ 134,068	\$ 57,720	\$ 76,349
63	Federal Taxable Income (L60 - L62)	\$ (495,025)	\$ (503,196)	\$ 8,171	\$ 1,789,991	\$ 770,635	\$ 1,019,356
64	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)	\$ (7,500)	\$ 1,226	\$ 7,500	\$ -	\$ -
65	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ (6,250)	\$ (6,250)	\$ -	\$ 6,250	\$ -	\$ -
66	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)	\$ (8,500)	\$ -	\$ 8,500	\$ -	\$ -
67	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (91,650)	\$ (91,650)	\$ -	\$ 91,650	\$ -	\$ -
68	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ (54,409)	\$ (57,187)	\$ -	\$ 494,697	\$ -	\$ -
69	Total Federal Income Tax	\$ (168,309)	\$ (171,087)	\$ 1,226	\$ 608,597	\$ 262,016	\$ 346,581
70	Combined Federal and State Income Tax (L35 + L42)	\$ (205,385)	\$ (208,776)	\$ 1,838	\$ 742,665	\$ 319,736	\$ 422,930
72	COMBINED Applicable Federal Income Tax Rate [Col. (D), L69 - Col. (A), L69] / [Col. (D), L63 - Col. (A), L63]				34.0000%		
73	WATER Applicable Federal Income Tax Rate [Col. (E), L69 - Col. (B), L69] / [Col. (E), L63 - Col. (B), L63]					34.0000%	
74	WASTEWATER Applicable Federal Income Tax Rate [Col. (F), L69 - Col. (C), L69] / [Col. (F), L63 - Col. (C), L63]						34.1535%
<u>Calculation of Interest Synchronization:</u>							
78	Rate Base (Schedule GWB-3, Col. (C), Line 17)	\$ 28,814,485	\$ 12,405,348	\$ 16,409,137			
79	Weighted Average Cost of Debt	3.4000%	3.4000%	3.4000%			
80	Synchronized Interest (L78 X L79)	\$ 979,692	\$ 421,782	\$ 557,911			
<u>Calculation of Rate Base Percentages</u>							
83	Sun City (Col. (B), L 78)	\$ 12,405,348	43.05%				
84	Sun City West (Col. (C), L78)	\$ 16,409,137	56.95%				
85	Totals	\$ 28,814,485	100.00%				

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

Surrebuttal Schedule GWB-3

Docket No. WS-01303A-06-0491

Test Year Ended December 9, 2005

FINAL

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 43,097,440	\$ (1,921,324)	\$ 41,176,116
2	Less: Accumulated Depreciation	19,474,787	(856,536)	18,618,251
3	Net Plant in Service	<u>\$ 23,622,653</u>	<u>\$ (1,064,788)</u>	<u>\$ 22,557,865</u>
	<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 5,122	\$ -	\$ 5,122
5	Less: Accumulated Amortization	39	-	39
6	Net CIAC	<u>5,083</u>	<u>-</u>	<u>5,083</u>
7	Advances in Aid of Construction (AIAC)	109,212		109,212
8	Imputed Reg AIAC	2,231,228	3,566,907	5,798,135
9	Imputed Reg CIAC	656,402	233,188	889,590
10	Deferred Income Tax Credits (Debits)	(628,097)	-	(628,097)
	Investment Tax Credits	-	-	-
	<u>ADD:</u>			
11	Cash Working Capital	-	-	-
12	Prepayments	8,678	-	8,678
13	Supplies Inventory	16,517	-	16,517
14	Projected Capital Expenditures	-	-	-
15	Deferred Debits	-	-	-
16	Purchase Wastewater Treatment Charges	-	-	-
17	Original Cost Rate Base	<u>\$ 21,274,020</u>	<u>\$ (4,864,883)</u>	<u>\$ 16,409,137</u>

References:

Column (A), Company Schedule B-2

Column (B): Schedule GWB-4

Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[E] ADJ #5	[F] ADJ #6	[F] STAFF ADJUSTED
PLANT IN SERVICE:										
1	304100	Struct & Imp SS	\$ 23,022	-	-	-	-	-	\$ (7,007)	\$ 16,014
2	304200	Struct & Imp P	5,948	-	-	-	-	-	\$ (1,811)	4,138
2	304510	Struct & Imp AG Cap Lease	-	-	-	-	-	-	\$ -	-
3	304600	Struct & Imp Offices	19,042	-	-	-	-	-	\$ (5,125)	13,917
3	304620	Struct & Imp Leasehold	15,214	-	-	-	-	-	\$ -	15,214
4	304800	Struct & Imp Misc.	-	-	19,841	-	-	-	\$ (6,039)	13,802
4	307000	Wells & Springs	4,032	-	(4,032)	-	-	-	\$ (1,227)	(1,227)
5	340100	Office Furniture & Equip	82,283	-	-	-	-	-	\$ -	82,283
5	340200	Comp & Periph Equip	17,442	-	-	-	-	-	\$ -	17,442
6	340300	Computer Software	130,902	-	-	-	-	-	\$ -	130,902
6	340330	Comp Software Other	2,832	-	-	-	-	-	\$ -	2,832
7	340500	Other Office Equipment	-	-	3,461	-	-	-	\$ (1,053)	2,408
7	341100	Trans Equip Lt Duty Trks	53,259	-	-	-	-	-	\$ -	53,259
8	343000	Tools,Shop,Garage Equip	2,326	-	-	-	-	-	\$ -	2,326
8	344000	Laboratory Equipment	-	-	10,598	-	-	-	\$ (3,226)	7,372
9	346100	Comm Equip Non-Telephone	61,003	-	-	-	-	-	\$ (14,474)	46,529
9	346300	Comm Equip Other	(141)	-	-	-	-	-	\$ -	(141)
10	347000	Misc Equipment	5,797	-	-	-	-	-	\$ -	5,797
10	351000	WW Organization	4,078	-	-	-	-	-	\$ -	4,078
11	352000	WW Franchises	1,343	-	-	-	-	-	\$ (388)	955
11	353200	WW Land & Ld Rights Coll	442,641	-	-	-	-	-	\$ (134,728)	307,913
12	353500	WW Land & Ld Rights Gen	20,747	-	-	-	-	-	\$ -	20,747
12	354200	WW Struct & Imp Coll	2,758,422	-	-	-	-	-	\$ (605,859)	2,152,563
13	354300	WW Struct & Imp SPP	934,046	-	-	-	-	-	\$ (284,299)	649,747
13	354500	WW Struct & Imp Gen	1,495,477	-	-	-	-	-	\$ -	1,495,477
14	360000	WW Collection Sewers Forced	752,939	-	-	-	-	-	\$ -	752,939
14	361100	WW Collecting Mains	13,009,430	-	-	-	-	-	\$ (9,682)	12,999,748
15	362000	WW Special Coll Struct	1,520,961	(380)	-	-	-	-	\$ (33,400)	1,487,182
15	363000	WW Services Sewer	2,650,379	-	-	-	-	-	\$ (1,588)	2,648,791
16	371100	WW Pump Equip Elect	44,181	-	-	-	-	-	\$ (13,447)	30,734
16	380000	WW TD Equipment	1,930,854	-	-	-	-	-	\$ (587,701)	1,343,153
17	380050	TD Equip Grit Removal	1,082,066	(212,082)	-	-	-	-	\$ -	869,984
17	380100	WW TD Equip Sed Tanks/Acc	5,355,333	-	-	-	-	-	\$ (1,630)	5,353,703
18	380200	WW TD Equip Sldge/Effl Rmv	29,918	-	-	-	-	-	\$ (9,106)	20,812
18	380250	WW TD Equip Sldge Dig Trnk	69,945	-	-	-	-	-	\$ (21,290)	48,655
19	380300	WW TD Equip Sldge Dry/Filt	6,101,457	-	-	-	-	-	\$ -	6,101,457
19	380400	WW TD Equip Aux Effl Trmt	1,048,273	-	31,685	-	-	-	\$ (9,644)	1,070,314
20	380500	WW TD Equip Chem Trmt Plt	245,070	-	-	-	-	-	\$ -	245,070
20	380600	WW TD Equip Oth Disp	1,034,545	-	-	-	-	-	\$ -	1,034,545
21	380625	WW TD Equip Gen Trmt	903,776	(2,987)	-	-	-	-	\$ -	900,789
21	380650	WW TD Equip Influent Lift S	91,546	-	-	-	-	-	\$ -	91,546
22	382000	WW Outfall Sewer Lines	112,726	-	-	-	-	-	\$ (5,493)	107,233
22	389100	WW Oth Plt & Misc Equip Int	18,930	-	-	-	-	-	\$ (5,762)	13,168
23	390000	WW Office Furniture & Equip	178,945	(34,067)	-	-	-	-	\$ (659)	144,219
23	391100	Computer Equipment	-	34,067	-	-	-	-	\$ -	34,067
24	391000	WW Trans Equipment	234,751	-	-	-	-	-	\$ -	234,751
24	392000	WW Stores Equipment	11,270	-	-	-	-	-	\$ -	11,270
25	393000	WW Tool Shop & Garage Equip	115,837	-	5,299	-	-	-	\$ (5,333)	115,803
25	394000	WW Laboratory Equipment	56,408	-	-	-	-	-	\$ -	56,408
26	395000	WW Power Operated Equip	12,955	-	-	-	-	-	\$ -	12,955
26	396000	WW Communication Equip	334,981	-	-	-	-	-	\$ (2,757)	332,224
27	397000	WW Misc Equipment	70,250	-	-	-	-	-	\$ -	70,250
27										
28		Total Plant in Service	\$ 43,097,440	\$ (215,448)	\$ 66,852	\$ -	\$ -	\$ -	\$ (1,772,728)	\$ 41,176,116
28										
29			19,474,787	(215,448)		(29,260)			(611,828)	18,618,251
29		Net Plant in Service (L58 - L 59)	\$ 23,622,653	\$ (0)	\$ 66,852	\$ 29,260	\$ -	\$ -	\$ (1,160,900)	\$ 22,557,865
30										
30		LESS:								
31		Contributions in Aid of Construction (CIAC)	\$ 5,122	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,122
31		Less: Accumulated Amortization	39	-	-	-	-	-	-	39
32		Net CIAC (L63 - L64)	5,083	-	-	-	-	-	-	5,083
32		Advances in Aid of Construction (AIAC)	109,212	-	-	-	-	-	-	109,212
33		Imputed Reg Advances	2,231,228	-	-	-	3,566,907	-	-	5,798,135
33		Imputed Reg CIAC	656,402	-	-	-	-	233,188	-	889,590
34		Deferred Income Tax Credits (Debits)	(628,097)	-	-	-	-	-	-	(628,097)
34		ITC	-	-	-	-	-	-	-	-
35		ADD:								
35		Working Capital Allowance	25,195	-	-	-	-	-	-	25,195
36		Pumping Power	-	-	-	-	-	-	-	-
36		Purchase Wastewater Treatment Charges	-	-	-	-	-	-	-	-
37		Material and Supplies Inventory	-	-	-	-	-	-	-	-
37		Prepayments	-	-	-	-	-	-	-	-
38		Projected Capital Expenditures	-	-	-	-	-	-	-	-
38		Deferred Debits	-	-	-	-	-	-	-	-
39		Original Cost Rate Base	\$ 21,274,020	\$ (0)	\$ 66,852	\$ (3,537,647)	\$ (3,566,907)	\$ (233,188)	\$ (1,160,900)	\$ 16,409,137

ADJ #	Allocated Common Plant	References:
1	Allocated Common Plant	Schedule GWB-5
2	Corrections to Plant Balances	Schedule GWB-6
3	Accumulated Depreciation	Schedule GWB-7
4	Imputed Reg AIAC	Schedule GWB-8
5	Imputed Reg CIAC	Schedule GWB-9

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

Docket No. WS-01303A-06-0491

Test Year Ended December 9, 2005

Surrebuttal Schedule GWB-5

FINAL
RATE BASE ADJUSTMENT #1 - ALLOCATED COMMON PLANT

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	362.00	WW Special Coll Struct	380	(380)	
2	380.50	WW TD Equip Chem Trmt Plt	212,082	(212,082)	
3	380.63	WW TD Equip Gen Trmt	2,987	(2,987)	
4	390.00	Office Furniture and Equipment	176,781	(34,067)	142,714
5	391.10	Computer Equipment	-	34,067	34,067
6	391.00	Transportation Equipment	234,751	-	234,751
7	392.00	WW Stores Equipment	11,270	-	11,270
8	393.00	Tools, Shop, & Garage Equipment	103,615	-	103,615
9	394.00	Laboratory Equipment	56,408	-	56,408
10	395.00	Power Operated Equipment	12,955	-	12,955
11	396.00	Communication Equipment	318,807	-	318,807
12	397.00	Miscellaneous Equipment	70,250	-	70,250
13	ALL	Totals	1,200,285	# (215,448) #	984,837

Accumulated Depreciation**

(215,448)

References:

Column [A]: As recalculated with info from response to RUCO 2.02-2.04DR 1.17 Revised

Column (B): Per Testimony GWB

Column (C): Per Company Reconciliation of Common Plant regarding Prior Decision No. 67093

**: Per Rebuttal testimony of S. Hubbard, these plant amounts are retirements and Accumulated Depreciation

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

Docket No. WS-01303A-06-0491

Test Year Ended December 9, 2005

Surrebuttal Schedule GWB-6

FINAL

RATE BASE ADJUSTMENT #2 - PLANT CORRECTIONS

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	304800	Structures & Imp Misc	\$ -	\$ 19,841	\$ 19,841
2	340500	Other Office Equipment	\$ -	\$ 3,461	\$ 3,461
3	344000	Laboratory Equipment	\$ -	\$ 10,598	\$ 10,598
4	380400	WW TD Equip Aux Effl Trmt	\$ -	\$ 31,685	\$ 31,685
5	393000	WW Tool Shop & Garage Equip	\$ -	\$ 5,299	\$ 5,299
6					
7	ALL	Plant / Rate Base Adjust.	\$ -	\$ 70,884	\$ 70,884
8					
9					
10	307000	Wells & Springs	\$ 4,032	\$ (4,032)	\$ -
11					
12		Net Adjustment Above		66,852	

References:

Column (A): Company Trial Balance

Column (B): Testimony GWB

Column (C): Column (A) + Column (B)

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER
Docket No. WS-01303A-06-0491
Test Year Ended December 9, 2005

Surrebuttal Schedule GWB-7
FINAL

RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION

LINE	ACCT		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED**
NO.	NO.	Description			
1	ALL	Totals	<u>\$ 19,474,787</u>	<u>\$ (29,260)</u>	<u>\$ 19,445,528</u>

References:

Column (A), Company Schedule B-1

Column (B): Per Testimony GWB

Column (C): As recalculated with info from response to RUCO DR 2.02-2.04 Revised.
adjusted for accumulated depreciation of associated overallocation on GWB-6

**Amount excludes effect of Adjustments 1 and 6

RATE BASE ADJUSTMENT #5 - IMPUTED REGULATORY AIAC

LINE NO.	DESCRIPTION	[A] YEAR OF ADVANCE	[B] ADVANCE AMOUNT	[C] CIAC AMORTIZED	(D) CIAC REMAING BALANCE
1	Beginning Balance Per Decision No. 67093	2001	\$ 14,502,979		\$ 14,502,979
2	None	2002	-	2,145,646	12,357,333
3	None	2003	-	2,231,228	10,126,105
4	None	2004	-	2,231,228	7,894,878
5	None	2005	-	2,096,743	5,798,135
6	Per Staff		<u>\$ 14,502,979</u>	<u>\$ 8,704,844</u>	\$ 5,798,135
7	Company Proposed Imputed Reg. CIAC				2,231,228
8	Staff Adjustment				<u>\$ 3,566,907</u>

REFERENCES:

Columns [A]: Fiscal Years

Column [B]: Beginning Balance per Decision No. 67093

Column [C]: Annual Amortization of Col [B] using 10 year recovery period per Decision No. 67093

Column [D]: CIAC per Decision No. 67093, less amortization.

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

Docket No. WS-01303A-06-0491

Test Year Ended December 9, 2005

Surrebuttal Schedule GWB- 9

FINAL

RATE BASE ADJUSTMENT #5 - IMPUTED REGULATORY CIAC

LINE NO.	DESCRIPTION	[A] YEAR OF ADVANCE	[B] ADVANCE AMOUNT	[C] CIAC AMORTIZED	(D) CIAC REMAING BALANCE
1	Beginning Balance Per Decision No. 67093	2001	\$ 1,458,672		\$ 1,458,672
2	None	2002	-	140,272	1,318,400
3	None	2003	-	145,867	1,172,533
4	None	2004	-	145,867	1,026,665
5	None	2005	-	137,075	889,590
6	Per Staff		<u>\$ 1,458,672</u>	<u>\$ 569,082</u>	<u>\$ 889,590</u>
7	Company Proposed Imputed Reg. CIAC				656,402
8	Staff Adjustment				<u><u>\$ 233,188</u></u>

REFERENCES:

Columns [A]: Fiscal Years

Column [B]: Beginning Balance per Decision No. 67093

Column [C]: Annual Amortization of Col [B] using 10 year recovery period per Decision No. 67093

Column [D]: CIAC per Decision No. 67093, less amortization.

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

Docket No. WS-01303A-06-0491

Surrebuttal Schedule GWB - 9B

Test Year Ended December 9, 2005

FINAL

RATE BASE ADJUSTMENT #4 - REALLOCATION OF NW VALLEY REGIONAL TREAT. FAC.

LINE	ACCT No.	DESCRIPTION	[A] COMPANY		[B] STAFF		[C] STAFF	
			AS	FILED	ADJUSTMENTS	ADJUSTED	AS	ADJUSTED
1	304100	Struct & Imp SS	\$	23,022	\$ (7,007)	\$	16,014	
2	304200	Struct & Imp P	\$	5,948	\$ (1,811)	\$	4,138	
3	304510	Struct & Imp AG Cap Lease	\$	-	\$ -	\$	-	
4	304600	Struct & Imp Offices	\$	18,611	\$ (4,994)	\$	13,617	
5	304600	Struct & Imp Offices	\$	431	\$ (131)	\$	300	
6	304620	Struct & Imp Leasehold	\$	15,214	\$ -	\$	15,214	
7	304800	Struct & Imp Misc	\$	19,841	\$ (6,039)	\$	13,802	
8	307000	Wells & Springs	\$	4,032	\$ (1,227)	\$	2,805	
9	340100	Office Furniture & Equip	\$	82,283	\$ -	\$	82,283	
10	340200	Comp & Periph Equip	\$	17,442	\$ -	\$	17,442	
11	340300	Computer Software	\$	130,902	\$ -	\$	130,902	
12	340330	Comp Software Other	\$	2,832	\$ -	\$	2,832	
13	340500	Other Office Equipment	\$	3,461	\$ (1,053)	\$	2,408	
14	341100	Trans Equip Lt Duty Trks	\$	53,259	\$ -	\$	53,259	
15	343000	Tools,Shop,Garage Equip	\$	2,326	\$ -	\$	2,326	
16	344000	Laboratory Equipment	\$	10,598	\$ (3,226)	\$	7,372	
17	346100	Comm Equip Non-Telephone	\$	13,451	\$ -	\$	13,451	
18	346100	Comm Equip Non-Telephone	\$	47,552	\$ (14,474)	\$	33,079	
19	346300	Comm Equip Other	\$	(141)	\$ -	\$	(141)	
20	347000	Misc Equipment	\$	5,797	\$ -	\$	5,797	
21	351000	WW Organization	\$	-	\$ -	\$	-	
22	351000	WW Organization	\$	4,078	\$ -	\$	4,078	
23	352000	WW Franchises	\$	-	\$ -	\$	-	
24	352000	WW Franchises	\$	1,343	\$ (388)	\$	955	
25	353200	WW Land & Ld Rights Coll	\$	-	\$ -	\$	-	
26	353200	WW Land & Ld Rights Coll	\$	442,641	\$ (134,728)	\$	307,913	
27	353500	WW Land & Ld Rights Gen	\$	20,747	\$ -	\$	20,747	
28	354200	WW Struct & Imp Coll	\$	-	\$ -	\$	-	
29	354200	WW Struct & Imp Coll	\$	2,758,422	\$ (605,859)	\$	2,152,563	
30	354300	WW Struct & Imp SPP	\$	934,046	\$ (284,299)	\$	649,747	
31	354500	WW Struct & Imp Gen	\$	-	\$ -	\$	-	
32	354500	WW Struct & Imp Gen	\$	1,495,477	\$ -	\$	1,495,477	
33	360000	WW Collection Sewers Forced	\$	-	\$ -	\$	-	
34	360000	WW Collection Sewers Forced	\$	752,939	\$ -	\$	752,939	
35	361100	WW Collecting Mains	\$	-	\$ -	\$	-	
36	361100	WW Collecting Mains	\$	13,009,430	\$ (9,682)	\$	12,999,748	
37	362000	WW Special Coll Struct	\$	-	\$ -	\$	-	
38	362000	WW Special Coll Struct	\$	1,520,961	\$ (33,400)	\$	1,487,562	
39	363000	WW Services Sewer	\$	-	\$ -	\$	-	
40	363000	WW Services Sewer	\$	2,650,379	\$ (1,588)	\$	2,648,791	

41	371100	WW Pump Equip Elect	\$	6,907	\$	(2,102)	\$	4,805
42	371100	WW Pump Equip Elect	\$	37,273	\$	(11,345)	\$	25,928
43	380000	WW TD Equipment	\$	1,930,854	\$	(587,701)	\$	1,343,154
44	380050	TD Equip Grit Removal	\$	-	\$	-	\$	-
45	380050	WW TD Equip Grit Removal	\$	1,082,066	\$	-	\$	1,082,066
46	380100	WW TD Equip Sed Tanks/Acc	\$	-	\$	-	\$	-
47	380100	WW TD Equip Sed Tanks/Acc	\$	5,355,333	\$	(1,630)	\$	5,353,702
48	380200	WW TD Equip Sldge/Effl Rmv	\$	29,918	\$	(9,106)	\$	20,812
49	380250	WW TD Equip Sldge Dig Tnk	\$	69,945	\$	(21,290)	\$	48,656
50	380300	WW TD Equip Sldge Dry/Filt	\$	6,101,457	\$	-	\$	6,101,457
51	380400	WW TD Equip Aux Effl Trmt	\$	31,685	\$	(9,644)	\$	22,041
52	380400	WW TD Equip Aux Effl Trmt	\$	1,048,273	\$	-	\$	1,048,273
53	380500	WW TD Equip Chem Trmt Plt	\$	245,070	\$	-	\$	245,070
54	380600	WW TD Equip Oth Disp	\$	-	\$	-	\$	-
55	380600	WW TD Equip Oth Disp	\$	1,034,545	\$	-	\$	1,034,545
56	380625	WW TD Equip Gen Trmt	\$	-	\$	-	\$	-
57	380625	WW TD Equip Gen Trmt	\$	903,776	\$	-	\$	903,776
58	380650	WW TD Equip Influent Lift S	\$	-	\$	-	\$	-
59	380650	WW TD Equip Influent Lift S	\$	91,546	\$	-	\$	91,546
60	382000	WW Outfall Sewer Lines	\$	-	\$	-	\$	-
61	382000	WW Outfall Sewer Lines	\$	112,726	\$	(5,493)	\$	107,233
62	389100	WW Oth Plt & Misc Equip Int	\$	-	\$	-	\$	-
63	389100	WW Oth Plt & Misc Equip Int	\$	18,930	\$	(5,762)	\$	13,168
64	390000	WW Office Furniture & Equip	\$	-	\$	-	\$	-
65	390000	WW Office Furniture & Equip	\$	178,945	\$	(659)	\$	178,287
66	391000	WW Trans Equipment	\$	-	\$	-	\$	-
67	391000	WW Trans Equipment	\$	234,751	\$	-	\$	234,751
68	392000	WW Stores Equipment	\$	11,270	\$	-	\$	11,270
69	393000	WW Tool Shop & Garage Equip	\$	5,299	\$	(1,613)	\$	3,686
70	393000	WW Tool Shop & Garage Equip	\$	10,638	\$	(3,238)	\$	7,400
71	393000	WW Tool Shop & Garage Equip	\$	105,199	\$	(482)	\$	104,717
72	394000	WW Laboratory Equipment	\$	56,408	\$	-	\$	56,408
73	395000	WW Power Operated Equip	\$	12,955	\$	-	\$	12,955
74	396000	WW Communication Equip	\$	334,981	\$	(2,757)	\$	332,224
75	397000	WW Misc Equipment	\$	-	\$	-	\$	-
76	397000	WW Misc Equipment	\$	70,250	\$	-	\$	70,250
77	398000	WW Other Tangible Plant	\$	-	\$	-	\$	-
78			\$	43,168,323	\$	(1,772,728)	\$	41,395,595

REFERENCES:

Columns [A]: GWB-4 Column [A], net of ADJ 1 and ADJ 2

Columns [B]: Reductions to SCW Rate Bases for reduced allocation
of Northwest Valley Regional Treatment Facility

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Wastewater Revenues	\$ 4,537,405	\$ -	\$4,537,405	\$ 1,100,841	\$ 5,638,246
3	Other Wastewater Revenues	1,000	-	1,000	-	1,000
4	Other	-	-	-	-	-
5	Total Operating Revenues	\$ 4,538,405	\$ -	\$4,538,405	\$ 1,100,841	\$ 5,639,246
6						
7	<u>OPERATING EXPENSES:</u>					
8	Labor	\$ 550,334	\$ -	550,334	\$ -	\$ 550,334
9	Salaries & Wages - Officers, Directors	-	-	-	-	-
10	Employee Pension and Benefits	-	-	-	-	-
11	Reallocation of NW Valley Regional Treatme	-	(375,783)	(375,783)	-	(375,783)
12	Waste Disposal	124,505	-	124,505	-	124,505
13	Fuel and Power	422,058	-	422,058	-	422,058
14	Fuel for Power Production	-	-	-	-	-
15	Chemicals	315,111	-	315,111	-	315,111
16	Materials & Supplies O & M	-	-	-	-	-
17	Management Fees	434,668	(25,815)	408,853	-	408,853
18	Customer Accounting	49,650	-	49,650	-	49,650
19	Rents	53,383	-	53,383	-	53,383
20	Gen'l Office Expense	37,473	-	37,473	-	37,473
21	Contractual Services - Testing	-	-	-	-	-
22	Contractual Services - Other	-	-	-	-	-
23	Rental Of Building/Real Property	-	-	-	-	-
24	Rental Of Equipment	-	-	-	-	-
25	Transportation Expenses	-	-	-	-	-
26	Insurance - Group	119,161	-	119,161	-	119,161
27	Insurance - General Liability	-	-	-	-	-
28	Insurance - Workman's Compensation	-	-	-	-	-
29	Insurance - Other Than Group	46,921	-	46,921	-	46,921
30	Telephone	-	-	-	-	-
31	Pension	33,780	-	33,780	-	33,780
32	Maintenance	83,530	-	83,530	-	83,530
33	Training, Travel, and Meals	-	-	-	-	-
34	Dues	-	-	-	-	-
35	Regulatory Comm. Exp. - Rate Case	42,327	-	42,327	-	42,327
36	Miscellaneous	234,954	-	234,954	-	234,954
37	Depreciation & Amortization Expense	1,622,728	(90,553)	1,532,175	-	1,532,175
38	Taxes Other Than Income	45,329	-	45,329	-	45,329
39	Property Taxes	258,861	(10,911)	247,950	13,920	261,870
40	Income Tax	(273,517)	275,355	1,838	421,092	422,930
41	Payroll and Other Taxes	-	-	-	-	-
42	Total Operating Expenses	4,201,256	(227,707)	3,973,549	435,012	4,408,561
43	Operating Income (Loss)	\$ 337,149	\$ 227,707	\$ 564,856	\$ 665,829	\$ 1,230,685

References:

Column (A): Company Schedule C-1
Column (B): Schedule GWB 11
Column (C): Column (A) + Column (B)
Column (D): Schedules GWB 2, Lines 29 and 37
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[G] ADJ #5	[G] STAFF ADJUSTED
<u>OPERATING REVENUES:</u>								
1	Wastewater Revenues	\$ 4,537,405	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,537,405
2	Other Wastewater Revenues	1,000	-	-	-	-	-	1,000
3	Other	-	-	-	-	-	-	-
4	Total Operating Revenues	\$ 4,538,405	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,538,405
5								
<u>OPERATING EXPENSES:</u>								
7	Labor	\$ 550,334	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 550,334
8	Salaries & Wages - Officers, Directors	-	-	-	-	-	-	-
9	Adjustment to NW Valley RTF Expenses	-	-	-	-	-	(375,783)	(375,783)
10	Purchased Wastewater Treatment	-	-	-	-	-	-	-
11	Waste Disposal	124,505	-	-	-	-	-	124,505
12	Fuel and Power	422,058	-	-	-	-	-	422,058
13	Fuel for Power Production	-	-	-	-	-	-	-
14	Chemicals	315,111	-	-	-	-	-	315,111
15	Materials & Supplies O & M	-	-	-	-	-	-	-
16	Management Fees	434,668	(25,815)	-	-	-	-	408,853
17	Customer Accounting	49,650	-	-	-	-	-	49,650
18	Rents	53,383	-	-	-	-	-	53,383
19	Gen'l Office Expense	37,473	-	-	-	-	-	37,473
20	Contractual Services - Testing	-	-	-	-	-	-	-
21	Contractual Services - Other	-	-	-	-	-	-	-
22	Rental Of Building/Real Property	-	-	-	-	-	-	-
23	Rental Of Equipment	-	-	-	-	-	-	-
24	Transportation Expenses	-	-	-	-	-	-	-
25	Insurance - Group	119,161	-	-	-	-	-	119,161
26	Insurance - General Liability	-	-	-	-	-	-	-
27	Insurance - Workman's Compensation	-	-	-	-	-	-	-
28	Insurance - Other Than Group	46,921	-	-	-	-	-	46,921
29	Telephone	-	-	-	-	-	-	-
30	Pension	33,780	-	-	-	-	-	33,780
31	Maintenance	83,530	-	-	-	-	-	83,530
32	Training, Travel, and Meals	-	-	-	-	-	-	-
33	Dues	-	-	-	-	-	-	-
34	Regulatory Comm. Exp. - Rate Case	42,327	-	-	-	-	-	42,327
35	Miscellaneous	234,954	-	-	-	-	-	234,954
36	Depreciation & Amortization Expense	1,622,728	-	(90,553)	-	-	-	1,532,175
37	Taxes Other Than Income	-	-	-	-	-	-	-
38	Property Taxes	258,861	-	-	(10,911)	-	-	247,950
39	Income Tax	(273,517)	-	-	-	275,355	-	1,838
40	Payroll and Other Taxes	45,329	-	-	-	-	-	45,329
41								
42	Total Operating Expenses	\$ 4,201,254	\$ (25,815)	\$ (90,553)	\$ (10,911)	\$ 275,355	\$ (375,783)	\$ 3,973,549
43	Operating Income (Loss)	\$ 337,151	\$ 25,815	\$ 90,553	\$ 10,911	\$ (275,355)	\$ 375,783	\$ 564,856

ADJ #	References:
1	Management Fees
2	Depreciation Expense
3	Property Taxes
4	Income Taxes
5	Reallocation of NWVRTF

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

Docket No. WS-01303A-06-0491

Test Year Ended December 9, 2005

Surrebuttal

Schedule GWB-12

FINAL

OPERATING INCOME ADJUSTMENT #1 - MANAGEMENT FEES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECPMMENDED
1	Mangement Fees	<u>\$ 434,868</u>	<u>\$(25,815)</u>	<u>\$ 409,053</u>

References:

Column (A), Company Schedule C-1

RATE BASE ADJUSTMENT #5 - IMPUTED REGULATORY CIAC

Column (C): Column (A) + Column (B)

OPERATING ADJUSTMENT #2- DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1		<u>PLANT IN SERVICE:</u>			
2	304100	Struct & Imp SS	\$ 16,014	2.50%	\$ 400
3	304200	Struct & Imp P	\$ 4,138	1.67%	69
4	304510	Struct & Imp AG Cap Lease	\$ -		-
5	304600	Struct & Imp Offices	\$ 13,917	1.67%	232
6	304620	Struct & Imp Leasehold	\$ 15,214	4.63%	704
7	304800	Struct & Imp Misc.	\$ 13,802	4.63%	639
8	307000	Wells & Springs	\$ (1,227)	2.52%	(31)
9	340100	Office Furniture & Equip	\$ 82,283	4.04%	3,324
10	340200	Comp & Periph Equip	\$ 17,442	15.89%	2,771
11	340300	Computer Software	\$ 130,902	37.71%	49,363
12	340330	Comp Software Other	\$ 2,832	37.71%	1,068
13	340500	Other Office Equipment	\$ 2,408		-
14	341100	Trans Equip Lt Duty Trks	\$ 53,259	28.05%	14,939
15	343000	Tools,Shop,Garage Equip	\$ 2,326	3.61%	84
16	344000	Laboratory Equipment	\$ 7,372	3.71%	274
17	346100	Comm Equip Non-Telephone	\$ 46,529	9.88%	4,597
18	346300	Comm Equip Other	\$ (141)	7.91%	(11)
19	347000	Misc Equipment	\$ 5,797	5.10%	296
20	351000	WW Organization	\$ 4,078	0.00%	-
21	352000	WW Franchises	\$ 955	0.00%	-
22	353200	WW Land & Ld Rights Coll	\$ 307,913	0.00%	-
23	353500	WW Land & Ld Rights Gen	\$ 20,747	0.00%	-
24	354200	WW Struct & Imp Coll	\$ 2,152,563	5.00%	107,628
25	354300	WW Struct & Imp SPP	\$ 649,747	5.00%	32,487
26	354500	WW Struct & Imp Gen	\$ 1,495,477	1.67%	24,974
27	360000	WW Collection Sewers Forced	\$ 752,939	2.07%	15,586
28	361100	WW Collecting Mains	\$ 12,999,748	2.04%	265,195
29	362000	WW Special Coll Struct	\$ 1,487,182	8.40%	124,923
30	363000	WW Services Sewer	\$ 2,648,791	2.04%	54,035
31	371100	WW Pump Equip Elect	\$ 30,734	5.42%	1,666
32	380000	WW TD Equipment	\$ 1,343,153	5.00%	67,158
33	380050	TD Equip Grit Removal	\$ 869,984	5.00%	43,499
34	380100	WW TD Equip Sed Tanks/Acc	\$ 5,353,703	5.00%	267,685
35	380200	WW TD Equip Sldge/Effl Rmv	\$ 20,812	5.00%	1,041
36	380250	WW TD Equip Sldge Dig Tnk	\$ 48,655	5.00%	2,433
37	380300	WW TD Equip Sldge Dry/Filt	\$ 6,101,457	5.00%	305,073
38	380400	WW TD Equip Aux Effl Trmt	\$ 1,070,314	5.00%	53,516
39	380500	WW TD Equip Chem Trmt Plt	\$ 245,070	5.00%	12,253
40	380600	WW TD Equip Oth Disp	\$ 1,034,545	5.00%	51,727
41	380625	WW TD Equip Gen Trmt	\$ 900,789	5.00%	45,039
42	380650	WW TD Equip Influent Lift S	\$ 91,546	5.00%	4,577
43	382000	WW Outfall Sewer Lines	\$ 107,233	5.00%	5,362
44	389100	WW Oth Plt & Misc Equip Int	\$ 13,168	4.98%	656
45	390000	WW Office Furniture & Equip	\$ 144,219	4.59%	6,620
46	391100	Computer Equipment	\$ 34,067	4.55%	1,550
47	391000	WW Trans Equipment	\$ 234,751	25.00%	58,688
48	392000	WW Stores Equipment	\$ 11,270	3.91%	441
49	393000	WW Tool Shop & Garage Equip	\$ 115,803	4.47%	5,176
50	394000	WW Laboratory Equipment	\$ 56,408	3.71%	2,093
51	395000	WW Power Operated Equip	\$ 12,955	5.02%	650
52	396000	WW Communication Equip	\$ 332,224	10.30%	34,219
53	397000	WW Misc Equipment	\$ 70,250	5.10%	3,583
54		Total Plant in Service	\$ 41,176,116	4.08%	\$ 1,678,253
55					
56					
57		Less Non Depreciable Plant			
58	351000.00	WW Organization	4,078.00	0.00%	-
59	352000.00	WW Franchises	954.71	0.00%	-
60	353200.00	WW Land & Ld Rights Coll	307,912.81	0.00%	-
61	353500.00	WW Land & Ld Rights Gen	20,747.00	0.00%	-
62		Net Depreciable Plant and Depreciation Amounts	\$ 40,842,423		\$ 1,678,253
63		Composite Depreciation Rate		4.11%	
64		Less			
65		Amortization of Regulatory CIAC at Settlement Rate			145,867
66		Amortization of CIAC at Composite Rate	\$ 5,122		\$ 210
67		Staff Recommended Depreciation Expense			\$ 1,532,175
68		Company Proposed Depreciation Expense			1,622,728
69		Staff Adjustment			<u><u>\$ (90,553)</u></u>

References:
Col A Schedule GWB-4
Col B Proposed Rates per Staff Engineering Report for Non Allocated Plant
Col C Col [A] times Col [B]

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

Docket No. WS-01303A-06-0491

Test Year Ended December 9, 2005

Surrebuttal Schedule GWB-14

FINAL

OPERATING ADJUSTMENT #3 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2005	\$ 4,538,405	\$ 4,538,405
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	9,076,810	9,076,810
4	Staff Recommended Revenue	4,538,405	5,639,246
5	Subtotal (Line 4 + Line 5)	13,615,215	14,716,056
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	4,538,405	4,905,352
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	9,076,810	9,810,704
10	Plus: 10% of CWIP - 2005	13,454	13,454
11	Less: Net Book Value of Licensed Vehicles	47,008	47,008
12	Full Cash Value (Line 9 + Line 10 - Line 11)	9,043,256	9,777,150
13	Assessment Ratio	0.250	0.235
14	Assessment Value (Line 12 * Line 13)	2,260,814	2,297,630
15	Composite Property Tax Rate - Obtained from ADOR	10.97%	10.97%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 247,950	
17	Company Proposed Property Tax	\$ 258,861	
18	Staff Test Year Adjustment (Line 16 - Line 17)	<u>\$ (10,911)</u>	
19	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 251,988
20	Tax on Parcels		\$ 9,882
21	Total Test Year Property Tax		\$ 261,870
22	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 247,950
23	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 13,920</u>
24			
25	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 13,920
26	Increase in Revenue Requirement		\$ 1,100,841
27	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.26446%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue

Line 17: Company Schedule C-1, Line 24

Line 21: Line 19 - Line 20

Line 23: Schedule GWB-1, Line 8

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

Docket No. WS-01303A-06-0491

Test Year Ended December 9, 2005

Surrebuttal Schedule GWB-15

FINAL

OPERATING INCOME ADJUSTMENT #4 - INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	<u>\$ (273,517)</u>	<u>\$ 275,355</u>	<u>\$ 1,838</u>

References:

Column (A), Company Schedule C-2

Column (C): Column (A) + Column (B)

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER
Docket No. WS-01303A-06-0491
Test Year Ended December 9, 2005

Surrebuttal Schedule GWB-16
FINAL

OPERATING INCOME ADJUSTMENT #5 - REALLOCATION OF EXPENSES NW VALLEY REGIONAL TREATMENT FAC.

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
	Operating Expenses	\$ 1,238,284		\$ 1,238,284
	Taxes Other Than Income	\$ 24,683		\$ 24,683
	Total Subject to Allocation	\$ 1,262,967	0	\$ 1,262,967
	Allocation Factor	97.754%		68.000%
	Expenses Allocated to Sun City West	\$ 1,234,601	(375,783)	\$ 858,818

References:

Column (A), Company Schedule Plant & Expense, Aofl tab

Column (A): Company Allocation Based on flows

Column (C): Staff recommended allocation rate and related allocation of expenses